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IMPERIAL FISCAL REFORM

SIR VINCENT CAILLARD



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BY

SIR VINCENT H. P. CAILLARD

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PREFACE

THE first thirteen chapters of the following volume are based upon a series of three articles which appeared in the February, March, and April numbers of the *National Review* last year; my cordial thanks are due to the editor of that Review for his courtesy in granting me unrestricted permission to make use of those articles as I pleased.

As a matter of fact, I had no idea of reproducing them—at any rate, in a form which adheres so closely to that in which they originally appeared; I had planned a work of wider and more ambitious scope, of the completion of which I have by no means abandoned the hope. But the announcement in May last by Mr. Chamberlain of his intention to submit the whole question of our fiscal policy to a general national inquiry, on lines which resemble those recommended in the three articles mentioned, and which he has for some years past foreshadowed, led me to believe that I should be rendering greater service to those who wish to take part in the inquiry by inquiring for themselves—the best and most effective way, indeed, in which they can so take part—if I reproduced immediately the figures and arguments by which I was led to my conclusions, instead of waiting in order to publish them in a more detailed and voluminous, perhaps in a more scientific, form. I have, however, considerably enlarged them, especially by adding to them at points where, owing to the exigencies of the space available for Review articles, the arguments seemed to lose clearness owing to compression, and where, for the same

reason, important elements in the discussion—such, for instance, as food-supply in time of war—had been almost entirely omitted.

Although, however, the present volume appears nearly a year and a half later than the *National Review* articles, I have, after careful consideration, deemed wiser not to take advantage of more recent Board of Trade returns than those on which I based my original statistics, but to leave the figures, as a general rule, as they at first appeared—to bring them up, that is to say, for matters of comparison, only to the end of 1899. My reason for this is that 1900, 1901, and the first half of 1902, were the times of the South African War, and that it is impossible in any way to estimate, even with approximate accuracy, what may have been the effect upon trade of that war. Indeed, I much doubt whether the effect has been spent even yet. It does not, on the other hand, seem probable that the war, which broke out only in October, 1899, can have produced any sensible impression on the trade of that year. My suspicions in regard to the other years are confirmed to a considerable extent by the following figures :

British (Special) Exports.	1899. ooo's omitted.	1901. ooo's omitted.	1902. ooo's omitted.
To Foreign Countries ...	£ 176,895	£ 175,234	£ 174,395
To British Possessions ...	87,597	104,788	109,029

Thus exports to foreign countries showed a constant decrease ; those to British possessions, on the contrary, increased by £17,191,000 in 1901, as compared with 1899, and in 1902 by £21,432,000. Of this remarkable growth of trade Natal and Cape Colony alone accounted for nearly six million pounds in the former year, and for upwards of

thirteen millions in the latter. Again, in the years 1899 and 1901 the tonnage of British vessels entered and cleared (exclusive of coasting trade and of transports conveying troops) in the ports of the same two colonies amounted to 8,199,000 tons and 12,134,000 tons respectively, an increase of 4,000,000 tons. These differences, in so far as Natal and Cape Colony are concerned, are clearly due to the war, and it may be reasonably inferred that the great impetus which our colonial trade received during the same years—especially as regards exports, largely in payment, no doubt, of colonial produce sent to South Africa for the supply of the troops—arose from the same cause. Taken by themselves, figures such as these would afford strong additional support to the conclusions at which I arrive. But this would be an inexcusably careless and partial use of statistics by all means to be avoided.* Although, therefore, to stop at the year 1899 may make my figures appear somewhat out of date, I prefer to labour under that disadvantage rather than to put forward others which, for the purposes of reasonable and impartial argument, might prove to be false.

The concluding chapters of the book are entirely fresh matter, and have been written with the express purpose of discussing the principal objections to preferential treatment of the colonies. To deal with all the objections raised would be a hopeless task and quite unprofitable, as a great mass of them are based either on misconception or on ignorance of the economic forces involved, or sometimes on a purely political party view of the matter, which is almost worse than either ignorance or misconception. And here I would venture to

* I need scarcely say that I am here speaking only for myself. Others who do not consider the war to have placed our trade under abnormal conditions are, of course, quite justified in making use of the later figures, and drawing from them such conclusions as they may think proper.

call the attention of those who desire earnestly to search for the truth to two propositions, which will be maintained or referred to more than once.

The first is that—in my view, at any rate—preferential treatment of the colonies must not be looked upon as an end in itself, but only as a step towards true Free Trade within the Empire. If that could be accomplished, I believe that the objections of many to the change of fiscal system into which the nation is now called to inquire would fall to the ground, and that they would, if only as Free Traders, become its warm advocates. I do not wish to blink the difficulties in the way, the principal among them being, no doubt, the reluctance of the colonies immediately to take a step which their various electorates are not yet educated even to consider. My chief difference from such objectors as these is that they shrink from preferential treatment and the difficulties which might be found to attend it, and I do not, since it seems to me that the result of such treatment would be an object-lesson which would prove to be the best education the colonies could receive, while I believe the supposed disadvantage to the mother-country to be illusory.

The second is, that scarcely any greater error could be made than to draw hard and fast conclusions from the present conditions of the world without any regard to the future, as if all things were to be crystallized into their present state without any possibility of change for all time to come. It is on this fallacy—for, truly, fallacy it may be called—that are largely grounded such arguments as that we are ‘sacrificing’ three-fourths of our oversea trade for the other fourth; I believe, indeed, that the fear that we are ‘sacrificing’ any part of that trade worth preserving is unfounded. Let those who are inclined to adopt such arguments consider the prophecies in regard to the future position—future at the time they wrote—of the United Kingdom hazarded by such men as Professor Thorold Rogers or Lord Farrer. It

would be difficult for any prophecies to fail more completely than have these—made only fifteen and twenty years ago. If those prophets were living now they would probably repeat their errors in foretelling the future importance in the commercial world of the colonial portions of the British Empire. One of our great national faults is want of foresight—a kind of mistaken conservatism which leads us to be so supremely satisfied with the present, and so absolutely convinced that our methods are superior to those of all the rest of the civilized world, that we need take no thought for the future, and that, should any great crisis come upon us, we are sure to ‘muddle through’ somehow or other. How perilously near disaster this spirit may bring us we have recently seen in the South African War; and it is strange that those who most vigorously attacked that very attitude of the national mind in the case mentioned are in the fore-front of the support of the *laissez-faire* policy (applied now to our commercial affairs) which it embodies. But in commercial war—and I fancy that there are but few Free Traders, however ‘convinced’ they may be, who will deny that commercial war rages always and everywhere in these times—the nation which is once decisively beaten must go under finally and completely: there can be no muddling through. History proves this conclusively: the Italian Republics, Spain, Holland, what is their commercial position now? We must therefore continually review our methods, to make sure that they are such as to ensure victory at any time. If, on review, we find those which we have in use to be the best, then most assuredly so much the better, for change is always difficult. If, on the other hand, we find them to be defective, then we must face the necessary change courageously and without an instant’s loss of time, for in such matters ‘he who hesitates is lost.’

In conclusion, I wish to express my grateful acknowledgments to Mr. R. F. Crawford for his kindness in allowing

me freely to make use of his excellent notes in the *Saturday Review* on the food supply of the Empire, as I have done in Chapter XI. ; and to the eminent firms of auditors, Messrs. W. B. Peat and Co. and Messrs. Trenow and Heisch, for their invaluable assistance in the preparation of figures and tables.

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IN his striking and singularly able Budget speech of April 19, 1901, Sir Michael Hicks-Beach committed himself to the following observations :

‘ We all hoped and expected that at the end of the war it [additional taxation] could be remitted ; but since then our ordinary expenditure, apart from the war, has enormously increased, and looking at the way in which the increase is going on . . . our ordinary expenditure would not permit us to remit the additional taxation imposed for war purposes last year, which, let me remind the Committee, included an income tax of no less than 1s. in the £. . . . To my mind, the great difficulty with which we have to deal now is not the war expenditure, but the ordinary expenditure of the country, and, therefore, in imposing such additional taxation as we may have provided to meet the additional expenditure of the present year, I think we are bound to make some endeavour to put our financial system on a broader basis so as to enable us to bear the additional expenditure.’

The House of Commons greeted these observations with cheers.

Now, expenditure, as not only the modern history of England, but of every other great civilized country, shows too clearly, has a melancholy tendency to increase. That, for instance, of Russia was in 1893 £104,410,000, in 1900 £199,417,000; of Germany in 1895 £65,359,000, in 1901 (officially estimated) £117,229,000; of France in 1895 £137,361,000, in 1900 (officially estimated) £152,232,000; of the United States in 1895 £90,245,000, and in 1901 £129,500,000.

In our own case the total expenditure, including payments to local taxation accounts, was in 1894-95 £100,932,000, and in 1901-02 £205,236,200. Of this figure it may be assumed that about £62,000,000 were absorbed in expenses consequent on the South African War, the expenditure on normal accounts having thus amounted to about £143,000,000.

For the current year the Chancellor of the Exchequer, in his recent Budget speech, estimated the expenditure at £143,954,000; if to this be added the payments to local taxation accounts, the total expenditure for the year 1903-04 will amount to about £153,720,000. No doubt a considerable sum is here still included for expenditure resulting from the South African War; on the other hand, we have the authority of Sir Michael Hicks-Beach for assuming that our expenditure must be maintained at a normal level of something like £140,000,000 per annum.

Seeing the 'waking up' of the old country which is now—as I think most happily—going on, and the general recognition by all of us, except a negligible minority, of the essential necessity of maintaining our military strength on land, and our naval strength at such a pitch that to lose command of the seas is a contingency so remote as scarcely to be possible, we should be wise not only to

face that huge annual bill, but to be prepared to meet its increase. If—to paraphrase an observation made by Mr. Gladstone in his Budget speech of 1861—‘it is the pleasure of the country to be governed at a cost of between’ £130,000,000 and £140,000,000, it must be so governed with the aid of a considerable taxation.

Let it not be understood that economy is hereby deprecated. On the contrary, it is clearly of the highest necessity that the accounts of our administrative departments should be continually and severely overhauled and criticised, that all waste, extravagance, and carelessness should be stopped, and that we should get the utmost return for every penny that we spend—that the management of our imperial finances should, in a word, be carried on on the strictest business principles.

That not inconsiderable saving would thus be effected is, at least, highly probable. But that such saving would reduce our expenditure to anything like the level at which it stood, say, seven years ago is not to be hoped. The pressure of rivalry is too great; the calls upon us to maintain our position in face of the increasing jealousy of many other great nations too imperative and too large. We must, *nolens volens*, please to be governed with the aid of a considerable taxation.

Having regard to the inevitable calls upon the national purse for national insurance, to the large item for the military occupation of South Africa which must inevitably appear in our accounts for some time to come, to the Debt and Consolidated Fund Charges, and to the expenditure on the Civil Services, which must be looked upon as irreducible, it would not be an exaggerated estimate to place our future normal level of expenditure at nearer £150,000,000.

Assuming the revenue from existing sources to fulfil the Chancellor of the Exchequer’s estimate of £144,270,000, a

deficit, in round figures, of £6,000,000 would thus have to be made good.

The financial problem which calls for solution is, however, of considerably more importance than this. It is, perhaps, a pretty generally forgotten fact that, in its origin and for long afterwards, the income tax was regarded only as a temporary expedient, to be got rid of as soon as circumstances would permit.* It was first imposed by Pitt in 1799, and, after being maintained during virtually the whole subsequent period covered by the French wars, was repealed in 1816.

It was not revived until 1842, and then for three years only; from time to time thereafter it was renewed for varying periods, but with the object of its ultimate extinction always held in view. But that object was never reached, and, in spite of Mr. Gladstone's insistence, in 1864, that it was very undesirable to dispose of the question 'in an indirect or equivocal manner, or that the income tax should creep unawares into perpetuity,' it has, as Mr. Sydney Buxton remarks,† done that very thing, and is with us now permanently with all the faults so severely criticised by Mr. Gladstone in 1853 still permeating its system.

'It was not,' he declared, 'adapted for a permanent portion of the fiscal system, unless you can by reconstruction remove its inequalities. Even if you could . . . there would still remain in my mind objections to it of the gravest character.' 'The objectionable principle of self-assessment can never be satisfactory to the country.' His general view, in fact, was that while it was an engine of gigantic power for great national purposes, it was to be deprecated as a per-

* For an excellent summary history of this tax, see Mr. Sydney Buxton's 'Finance and Politics.' John Murray, 1888.

† 'Finance and Politics,' vol. i., p. 331.

manency on account of the public feeling of its inequality, the inquisition which it necessitated, and the frauds to which it must lead.* There were 'circumstances attending its operation which make it difficult, perhaps impossible, or at any rate not desirable, to maintain it as a portion of the permanent and ordinary finance of the country.'

Although admitting its unfairness in its bearing upon different classes of income, he considered that it was impossible to readjust it without 'breaking up the basis of the tax,' which would throw the whole finance of the Empire into confusion. It had, in fact, to be maintained as it was, or to be abolished; and in time he hoped to abolish it. He clung to this hope as late as 1874, when, after the dissolution of Parliament, he promised to the electorate, if they returned him to power, the 'advantage and the relief' of the total repeal of the income tax.

The opportunity was not afforded him, and that was, I believe, the last occasion on which the repeal of the income tax has been seriously put forward as feasible.

Other Chancellors of the Exchequer, on other grounds, have wished to see it done away with.

'If we maintain the income tax,' said Sir Stafford Northcote, 'as a permanent engine of taxation, we are tempted to spend whatever it is pleasant to spend, and to take off whatever it is pleasant to take off. The income tax is always at command to be raised to 4d. or to 6d., [how one envies those happy days when a rise to 4d. could be spoken of!], 'as occasion requires, and you have not that pressure put upon you to study economy which you would otherwise have.

'You may, in fact, go as far as you please in any direction which is pleasant, because you would always be able to get

* The corollary of this is another formidable objection to the tax—namely, that, as Mr. J. S. Mill said, 'It is in practice unequal in one of the worst ways, falling heaviest on the most conscientious.'

the matter right by shifting the income tax. By adopting this rule you have in the past been tolerably free in admitting new items of expenditure, and very liberal in striking off taxes. But the consequence has been that a number of sources of revenue have been brought down to a dangerously low ebb.*

They have indeed. Between 1867 and 1887 indirect taxation of some seven millions was remitted, and the income tax was increased by 3d., producing now some seven millions a year. Between 1887 and 1902 the income tax was increased by 7d., producing, net, about £14,400,000, and the death duties by some £7,900,000 a year, together nearly £22,300,000. In the same period indirect taxation was increased by about thirteen and three-quarter millions.

The great increases of both income tax and of indirect taxation took place, of course, in the last two years of war, and the income tax nobly bore its burden in that 'time of national emergency.'

* Nevertheless, when in the following year Sir Stafford Northcote became Chancellor of the Exchequer, he did no more than take one penny off the income tax, thus reducing it to twopence (its lowest point), while he repealed two taxes, the sugar duty and the horse tax, at a cost of about £2,500,000. He explained in his Budget speech that 'such a mighty structure as that' (the income tax) 'is not to be lightly thrown down at six weeks' notice, and therefore, although we certainly do not profess any enthusiastic admiration for the faults of the income tax . . . bearing in mind that it has "more wealth than faults," we think it ought to have a little further trial before we decide what is to be done with it.'

He was following the lead of Mr. Disraeli who, in a speech delivered at Aylesbury on February 1 previous, opined that though 'the income tax is a war tax, and should not exist except when we are in a position of war,' to replace it by 'heavier and more vexatious' taxes (in allusion, of course, to Mr. Gladstone's proposals) would be unwise, and it was better to 'let it die naturally.' In any case, 'every one feels that in a very short time the income tax, under those circumstances, would disappear.' Thus this unique opportunity was allowed to pass away for party reasons.

Whether the national emergency was such as to warrant raising the income tax to so excessive a rate is already a debatable matter.

In the current year (1903), by the most unfortunate and uncalled for repeal of the shilling corn tax, indirect taxation has been decreased by about two millions, and by the fourpenny reduction of the income tax direct taxation by about £10,000,000, the net increase of each class of taxation since 1887 thus standing now respectively at, in round figures, eleven and three-quarter millions and thirteen and three-tenths millions.

But it is necessary to observe that Sir Michael Hicks-Beach distinctly pointed to the permanent maintenance of the income tax at a level of, at any rate, one shilling in the pound. If this policy were followed, so much the more is that resource weakened when another time of emergency shall occur. Thus to cut away our main line of reserve is not prudent finance.

To abolish the income tax altogether, as Mr. Gladstone and his school—indeed, financiers of nearly all schools—hoped in the past, must, for at least some time to come, remain a ‘counsel of perfection.’ But it should be both reduced and, if possible, reformed, since it is to remain with us.

The main line on which it should be reformed is to render its incidence equitable. The case for this, or rather for two-thirds of it, is well and convincingly put by Mr. J. S. Mill, and is thus summarized in the abridged edition of his ‘Principles of Political Economy,’ edited by Mr. J. Laurence Laughlin :*

‘ . . . First, that incomes below a certain amount should be altogether untaxed. This minimum should not be higher than the amount which suffices for the necessities of the existing population. The second condition is, that incomes above the limit should be taxed only in proportion to the surplus by which they exceed the limit. Thirdly, that all

* Edition of 1888, p. 55. D. Appleton and Company, New York.

sums saved from income and invested should be exempt from the tax ; or, if this be found impracticable, that life-incomes and incomes from business and professions should be less heavily taxed than inheritable incomes.'

The first and second conditions are already to a certain limited extent complied with, no tax being charged upon incomes below £160 a year, and graduated abatements being allowed on incomes between that amount and £700 a year. But the limit of total exemption is certainly not high enough.

An idea which seems to be pretty generally present in the minds of those who contrast the 'rich' and the 'poor' that these terms are convertible with income-tax payers and non-income-tax payers is altogether erroneous. There is a large class of income-tax payers near the border-line who are more truly poor than great numbers of those whose incomes are considerably less than theirs ; a struggling, meritorious, and uncomplaining class already over-taxed, whose claims are barely taken into consideration, and the lightening of whose burden, needed more urgently, perhaps, than any other, would certainly add to the reserve of national strength. To place the minimum at an amount barely sufficient for one person to obtain for himself a scanty lodging, and to feed and clothe himself decently, is to fix a limit based on no kind of reason.

It must always be a difficult matter to define what may be the 'necessaries of the existing population'—where 'necessaries' end and where 'luxuries' begin. But it can be advanced without any hesitation that it is as necessary for the great majority of small income-tax payers to clothe themselves well and to lodge, clothe, and educate their families properly, as it is to procure them rations of bread, meat, and tea. If they failed to do this, the very employment which maintains them would slip from their hands.*

* I am alluding here to Schedules D and E, which comprise by far the largest proportion of the class of incomes which I am discussing.

It may perhaps be replied that this applies to heads of families, and that no one need marry unless he choose. That is true. But to adjust taxation in such a manner as to lay a tax upon marriage is surely the worst imaginable kind of national economy, especially in an Empire like ours, two-thirds of which lies fallow for want of hands to develop it. That, however, is the effect of our income tax on its present basis.

It has been seriously proposed to exempt from income tax all sums spent in the education of children, but by such a proceeding some of the objections to the tax would only be increased. A cognate suggestion that a higher rate should be imposed on celibates than on married persons does not incur theoretically the same objections, and need not be cast on one side as, *primâ facie*, ridiculous and unworthy of consideration. It may be perfectly true that the Exchequer is not the keeper of national morals, but neither is it one of its functions to discourage good morals by differential treatment. Nevertheless, action in the direction above alluded to would involve legislation for exceptions, which is generally a mistake; in practice it would be better to avoid complications as far as possible, and to render the tax as equitable as may be in its incidence upon taxpayers as a whole, without being overpreoccupied as to differentiations which might be recommendable in theory in order to render it perfect.

Considerations of this kind, however, would need a special treatise on the income tax to develop them. What it is desired to impress now is that the level for complete exemption from the income tax should be considerably raised, and that the injustice inflicted upon small incomes above that level as compared with large should be as far as possible done away with. Mr. J. S. Mill summarized this injustice perfectly in his evidence before Hume's Committee in 1852 :

‘The just principle of taxation I conceive to be to impose as far as possible an equal sacrifice on all.’ ‘If the object was to raise from a number of people a contribution for some common object, the natural course would be, not to take exactly the same sum from each, because they can afford it in unequal degrees; and so by taking, not the same sum, but the same proportion, you would still take from them what they could not afford in equal degrees. I would make an allowance for that circumstance, and I would endeavour so to regulate the sum taken from each that each should be required to give up an equal share, not of their means, but of their enjoyments.’

This statement of the case is fairer, and founded on better reason than the second of the three conditions before quoted. To the head of a family with an income of £700 a year the expenditure of every pound is a matter for careful consideration and forethought. But whether a man has £19,000 or £20,000 a year cannot be said to make any difference in the matter of his enjoyments; he has in either case largely more than sufficient to satisfy them. If the head of a family with £700 a year finds his income curtailed by £35 he must necessarily deprive himself of most, if not all, of his few pleasures, whereas the curtailment of an income of £20,000 by £1,000 would deprive the owner of none, or only of an infinitesimal portion of his. Thus, by ‘taking the same proportion’ from each that very injustice is inflicted which Mr. Mill rightly deprecated.

The third of the conditions mentioned by Mr. Mill as essential for a fair income tax has never hitherto been respected. Life incomes and incomes from business and professions have been, and continue to be, taxed at the same rate as inheritable incomes. The injustice of this system is described clearly and concisely by Mr. Sydney Buxton.* Citing the opinion of Pitt in 1798 that it is not

* ‘Finance and Politics,’ vol. ii., pp. 172 and 173.

the business of the financier to correct inequalities of wealth, he continues :

‘But at least it may be argued that it is his duty not to increase the inequality, and if advantage is to be given to any class, that advantage should lean to the side of the less wealthy. Yet in the case of the income tax the process is exactly the reverse ; the precarious income is taxed at an equal, and therefore at a proportionately heavier, rate as compared to the secure income. The objection to the present system of assessment is that the tax is levied in the case of precarious incomes not only on income, but also partly on what is practically capital.

‘The owner of a temporary income not derived from capital, and depending wholly or in part on his own health and life, is bound to save and invest a portion of his income ; a necessity which cannot be said to exist to anything like the same degree in the case of the possessor of a permanent income derived from capital. One man is at liberty to spend the whole of his income without being in a worse position than before ; another, if he does more than spend a portion, is practically consuming his capital ; and yet the income tax is charged equally on the two.

‘No doubt a good deal has been done since 1852 by the increase that has taken place in the death duties—which constitute direct taxation on realized property—to redress the inequality between the taxation of capital and of income. But I doubt if this really meets the objection to the income tax. The additional death duty is levied not only on “permanent capital,” but on the inherited savings from “precarious incomes,” every penny of which has already paid income tax.’

An ancillary question is whether profits of trade should not be taxed at a lower rate than permanent incomes—whether, in other words, some discrimination should not be made in favour of that portion of the fruits of trade and

industry (to which, as Mr. Gladstone truly said, the income tax is 'most vexatious') which may be considered to be profits, as apart from interest on the capital invested.

Those profits must necessarily depend, in the case both of persons or combinations of persons, such as firms or companies, upon the continuance of the business from which the profits are derived. They are quite distinct from interest, and can only properly be regarded as the remuneration of management and enterprise. They possess, therefore, precisely the same character as 'precarious' incomes; while, moreover, the fact that the 'real effect of a tax on profits is to make the country possess at any given period a smaller capital and a smaller aggregate production' is an additional and strong argument in support of their receiving discrimination of treatment at least as favourable. It cannot, I believe, be contested that the present system of taxing precarious incomes at the same rate as those which are permanent is essentially unsound and essentially unjust, and that this is at least equally true in the case of the profits of industry.*

It is not possible to suggest here, or, perhaps, without a good deal more information than is at the disposal of a private individual to suggest at all, a detailed scheme for income-tax reform. The most glaring faults only can be mentioned, and the general lines on which reform should be carried out indicated. The subject is one of so much difficulty and complexity that it is unlikely that any really comprehensive and satisfactory reform could be instituted without a previous exhaustive inquiry by a Special Com-

* In order that no misapprehension should exist, I should add that in the term 'industry' agriculture is included. It would be a more complex problem to determine, in this case, what is the amount of capital invested.

mittee of the House of Commons,* which should be supplied with all the information and evidence possible, whether public or private.

Some discrimination, no doubt, there already is—in the shape of rates on real property, largely increased and graduated death duties, the assessment of profits over an average of three years, the deductions for life-policies, the assessment on net profits in some cases and gross in others. These, however, are palliatives—good as far as they go—but not remedies, and it would probably be found that in practice they go but a short way to rectify the unfairness and unsoundness of the tax as it now stands, and to lessen, therefore, the necessity for reform. They cannot in any case serve even as a palliative to the objection attaching to all direct taxation, that it is taxation of the most onerous kind, and that it should consequently be employed as sparingly and laid on as lightly as possible.

In this country precisely the contrary course has been adopted; the financial resource of a series of Chancellors of the Exchequer has been limited, with the exception of the scheme of death duties invented by Sir William Harcourt, in some respects essentially faulty also, and the indirect taxation instituted in the years 1901 and 1902 by Sir Michael Hicks-Beach, to remitting indirect taxation without the least necessity, and adding pennies to the income tax.

I regret that it is impossible within the limits of this work to enter upon any discussion of the faults of the present death duties. To mention only one—the unfairness with which they bear upon the agricultural industry of this

* The two Committees—Hume's of 1851 and Hubbard's of 1861—were scarcely serious attempts. The first reported that it had not time to report, and practically no official assistance was afforded to the second. I should add that this passage was written before the present inquiry was instituted.

country is sufficient alone to render them a blot upon our financial system. Again, it must be pointed out that although it is perfectly true that they constitute a tax upon realized property, it is equally true that, for those upon whom they fall, they are tantamount to an increase of income tax, unless the fortunes which bear them are within a limited time to be dissipated altogether.

Confining our attention, however, for the present to the income tax only, the general lines on which reform may be recommended appear to be as follows :

(a) It should be reduced, if it is to be considered, as it was intended that it should be, and as it ought to be, our financial mainstay in any great national emergency, to a much lower level.

(b) The level of complete exemption should be raised from £160 to £300.

(c) A discrimination—say of one-fourth—should be made in favour of precarious incomes, as compared with permanent incomes.

(d) Profits of trade and industry, as above defined, should be treated on the same basis as precarious incomes.

(e) On incomes above £300, and taking into account recommendations (c) and (d), a graduated income tax should be imposed, commencing at a small percentage, to be continually and very gradually increased until incomes of £50,000 and over are reached. Beyond that level it may be safely assumed that no further graduation is necessary.

The chief theoretical objection to a graduated income tax is well known ; but assuming the graduation to be sufficiently fine, I cannot see that it is well founded. To suppose that men endowed with the peculiar gift of money-making, whether in the realms of industry or of finance, would stop short for fear that, by continuing to accumulate, they would receive a slightly less net amount from every pound of their incomes as they increased, is to imagine a

tendency to self-amputation of nose from face which is scarcely in consonance with human nature. Moreover, the principle has been admitted in the death duties, and has now been at work for some years without, at any rate observably, producing the effect dreaded.

It is not intended to imply any socialistic suggestion that rich men should be taxed because they are rich. It is here only a question of raising revenue. To raise revenue it is, unfortunately, necessary to impose taxes, and if the income tax is to be one of these, it should comply with the fundamental condition which should be attached to all taxation—namely, that the burden of it should be distributed over the whole body of taxpayers, so that it should press as lightly as possible on the shoulders of all in proportion to their strength.

It is not, on the other hand, attempted to deny that the practical difficulties in the path are enormous; it may be that they are too great to allow of an approach to theoretic perfection.* But this, while it is no reason why an earnest attempt should not be made to overcome them, is a strong one in favour of reforms in the other directions indicated. In any case, and whatever may be thought of reform, it is urgently necessary that the tax should be reduced.

To leave our national finance resting on so narrow a basis as the present is not only unsound—it is dangerous, as we should soon find to our cost were a really great national emergency to arise. At such times the possibility must be admitted that the utmost help that the poor could give would be to suffer in silence; if they had borne an unduly small share of the burdens of the State beforehand it would be impossible to increase that share then.

If, on the other hand, the richer classes had been bearing more than their share, you might find the response to your call too feeble to carry you through the crisis. Taxation should be so adjusted in normal times that all should con-

* Cf. Sidgwick, *Principles of Political Economy*, Book III, chap. viii., § 7.

tribute, as nearly as possible, in proportion (not an arithmetical, but an equitable proportion) to their means, so that, when the time comes for great national effort, the *maximum* reserve of strength may be at the disposal of the commonwealth.

The income tax must, then, be reduced ; it should certainly not, in normal times, be at a higher level—taking into account the reforms proposed—than would produce a revenue equal to that of 6d. in the pound under present conditions.

On these grounds—although the corn tax might well have been left on all foreign corn, that is, on all corn not produced within the Empire, and the income tax have been reduced to 10d.—the Budget proposals for the year 1903-1904, so far as they concern the income tax, may be welcomed. They do not, however, go far enough ; the level of the income tax is still 5d. in the pound too high.

Since the proposition on which we started was that no decrease of expenditure was possible, but that, on the contrary, it was necessary to look upon £150,000,000 as the normal level, there would thus arise an immediate deficit, in round figures, of £18,500,000 to be covered.

Following Sir Michael Hicks-Beach in his survey of possible sources from which to draw fresh revenue, and referring to the revenue returns for the past year (1902), we shall find ourselves reduced to the same conclusion as he was. Excise being still well below the level of 1900-1901, it would probably not be more profitable to the revenue to impose additional taxation on spirits or beer now than then. Absolutely nothing, he said, was to be got out of wine.

Customs, it is true, have increased considerably, but pretty well the whole of the increase can be accounted for by the new sugar and coal duties, and the ephemeral corn duty ; it may, therefore, be taken as certain that tea and tobacco are as much out of the question as spirits and beer.

The income-tax payers are still heavily weighted, the death duties could scarcely be raised. The unwisdom of ever having narrowed down our financial system so far, and the truth of Mr. Disraeli's remark, 'that the income tax, instead of being an instrument for reforming our tariff, had commenced to be an instrument to destroy it, and that under the influence of the income tax other sources of revenue were constantly disappearing,' have become remarkably evident.

We have now to consider how, by replacing some, at any rate, of those sources of revenue—a much harder, or at any rate a much more unpopular, task than making them disappear—we may 'put our financial system on a broader basis.'*

* A very interesting contribution to the discussion of this matter in its relation to the doctrine of Free Trade is to be found in Mr. J. A. Hobson's article, 'The Approaching Abandonment of Free Trade,' in the *Fortnightly Review* of March, 1902.

CHAPTER II

CHANGED CONDITIONS

Necessity of comparing present with former conditions—Lord Farrer's predictions regarding United States—How completely falsified—Mr A. S. Ackermann on progress of United States—Mr. Moseley on same subject.

BEFORE endeavouring to ascertain on what principles taxation may be best adjusted, it is of the highest necessity to compare the conditions of the problems which we now have to face with those which prevailed some sixty years ago, when our present fiscal system was founded, and in the period which followed, during which it was built up. To such a study as this I venture to hope that we shall bring to bear minds fresh and untrammelled from prejudice, above all, free from that violent and exaggerated partisanship which fiscal questions seem to arouse in the minds of most Englishmen.

Human affairs are not to be governed by laws inexorable and invariable as the laws of geometry or of mathematics; in these the conditions never change, in those they are never stable. He, for instance, who would conduct his affairs, or the affairs of his country, on the lines which prevailed before the era of railways and telegraphs, would soon drive himself and his country to irretrievable ruin. The truth of one age may become the delusion of the next.

As a concrete example of how far events falsify the conclusions of the sanest minds owing to change of condi-

tions, I will cite the manner in which Lord Farrer in 1886 considered the question of the competition of the United States with ourselves in the matter of trade. After stating that the labour and capital of America were largely employed in providing Europe, and England especially, with food, and that to tax that food would be to drive her into providing the manufactures we want to sell to her, he continues :*

‘ At present, in spite of, or possibly in consequence of, her system of Protection, the sale of her highly forced and highly priced manufactures is in a great measure confined, or nearly confined, to her own subjects, and she is no rival to England in her own markets or in the markets of the world. . . . In 1880 we exported to her twenty-four and a half millions of manufactures and imported from her two and a half millions. Out of her total exports about 10 per cent. are manufactures, and 90 per cent. food and raw materials, chiefly agricultural produce. But if we deprive her of her market for agricultural produce we shall drive her into manufacture, and there is no saying how formidable a rival she may become.’

The inference is that if our markets remained unrestrictedly open to her, her rivalry was not to be feared, either in our own or foreign markets, possibly in consequence of her system of Protection. Our markets have remained open, her system of Protection has only been intensified, and the comparative figures are now as follows :

In the year 1880 our total imports from the United States amounted to £107,081,000, and our exports to her to £37,954,000; in 1899 our imports from her were £120,081,000, and our exports to her £34,975,000. Out of her total exports in 1880 about 10 per cent. were manufactures and about 90 per cent. food and raw materials; in 1899 about 29 per

* ‘ Free Trade *versus* Fair Trade,’ third edition, p. 80.

cent. were manufactures and about 71 per cent. were food and raw materials.*

These percentages say something, but the absolute figures say more. The value of her manufactures exported in 1880 was £17,165,000, in 1899 £75,698,000; of food and raw materials in 1880 £154,490,000, in 1899 £185,329,000.

As to the general foreign trade of the two countries, the following table is very instructive :

Year.	United Kingdom, in Thousands of Pounds.		United States, in Thousands of Pounds.	
	Imports.†	Exports.†	Imports.‡	Exports.§
1880	£ 347,876	£ 223,060	£ 136,721	£ 171,655
1889	361,021	248,935	152,711	152,142
1899	419,994	255,381||	155,507	261,027

Thus, while our export trade in 1899 showed an increase over that of 1880 of £32,000,000, that of the United States showed an increase of £90,000,000, while of that total 58½ millions are accounted for by the increase of her exports of manufactures.

Not knowing what effect the South African War may have had upon the course of trade generally, I have not attempted to take out figures for a later year than 1899; but

* These percentages are worked out on the figures given in the 'Statistical Abstract for Foreign Countries,' No. 18, p. 44, and No. 27,

P. 47

† Foreign and colonial produce re-exported not included.

‡ Retained for home consumption.

§ Of domestic produce.

|| Not including shipping (£9,111,000), previously unrecorded.

that American competition has pressed upon us both in our home and in foreign markets more and more keenly since then cannot, I fear, be doubted, and is a matter of continual remark in the public press.

As a further comment upon Lord Farrer's complacent observations, the following quotation from a paper read by Mr. A. S. E. Ackerman, recently returned from a four months' engineering tour through the United States, before the Civil and Mechanical Engineers' Society, on January 2, 1902, is pointed enough :

'Americans have been very much awake for many years past, and their progress during the past six years has been phenomenal. Each day almost sees them surpass us in some branch of trade, and to my mind it is almost hopeless for us to get ahead of them again.'

At least equally interesting and to the point, and still more recent, are Mr. Moseley's remarks in his preface (p. 7) to the reports of the Moseley Industrial Commission, in the course of which, after pointing out that the United States have already attained the position of the leading manufacturing country of the world, and that they must be placed 'in the same position relatively that England herself occupied some fifty years ago,' he continues thus :

'It is more than necessary that both Capital and Labour should bear this point well in mind. At the present time the home market of the United States is so fully occupied with its own developments that the export trade has as yet been comparatively little thought of ; but as time goes on, and the numerous factories that are being erected all over the country come into full bearing, America is bound to become the keenest of competitors in the market of the world.'

CHAPTER III

CHANGED CONDITIONS, CONTINUED: THE EFFECT OF WARS UPON EXPORTS

Changes which have taken place—Improvements in means of communication—Mr. Gladstone thereon—Political unrest—Examination of effect of great wars upon exports.

WHAT changes, then, have taken place between the conditions of sixty years ago and those prevailing now? And have any of the truths of that time become the delusions of to-day?

In the first place there has been, of course, the development in means of communication. By railways and steamboats we can now cover distances in less weeks than it used to take months; by the telegraph we can almost talk with the Antipodes—indeed, by the aid of wireless telegraphy we shall no doubt literally do so soon. Speeds have increased fourfold, freights have diminished by as much; certainty and punctuality are the rule instead of being the rare exception. Such increased facilities and such economy of time and cost alone would have been sufficient to give trade a great impetus. Mr. Gladstone, in a most interesting article written in 1880,* gives credit for the increase of the trade and wealth of the United Kingdom between 1843 and 1879 to what he called ‘Liberation of Intercourse’ and ‘Improvement of Locomotion’ in the proportion of 70 per cent. and

* *Nineteenth Century*, vol. vii., p. 367.

30 per cent. respectively. But he himself acknowledged that no portion of the reasoning or evidence he adduced could claim to be demonstrative in itself, and, with all respect to so great an authority, it is difficult to agree in a calculation which includes in the account of 'Improvement of Locomotion' railways and telegraphs only, and neglects entirely the immense and simultaneous improvements in ocean traffic by steamships (although that is mentioned), the great stimulus to international trade which they imparted, and the increased demand for raw materials, chiefly coal and iron, and of labour, entailed by the construction of railways, and of iron ships instead of wooden ones. A good deal more credit is probably due to the improvement of locomotion than Mr. Gladstone allowed it.

In the next place, we must consider the difference of the political conditions generally prevailing in England from those existing in other countries. Political unrest, wars and revolutions, retard production at the time they take place, and leave on those who take part in and who suffer them effects which cannot at once be recovered. The demands of countries undergoing those evils may in consequence be decreased, and the exports to them from the more fortunate nation, which need not turn its energies away from the arts of peace, be decreased likewise. But their manufactures, and therefore their own exports to others, unless the war were not of such magnitude as to cause much strain on their resources, must be partially stopped; and since the general and increasing demand of the world could not wait for them, some portion of their trade would be deflected to the more favoured people, nor would they, at any rate as a general rule, recover the lost ground at once.

One would expect, then, that exports during a serious war or revolution would decline in the country directly affected—that decline beginning to show itself in the year

in which the catastrophe commenced, unless this took place towards the close of a year, when the bad effect could scarcely make itself evident until the following year. In countries not directly affected the volume of exports might be momentarily diminished, but there would be an immediate recovery, and a strong following upward movement. This in its turn would be followed by a reaction in the other direction, as the country which had suffered the calamity of war recovered its trading strength.

The export figures of any country at war, and of the principal trading countries, must, therefore, always be carefully noted for the year preceding the commencement of the war as well as for a year or two succeeding it. It would be interesting to commence with the period 1840-1850, which was generally one of unrest, and to compare it with the succeeding ten years. Unfortunately I have no reliable figures to give for this period, except in regard to the United Kingdom and France, and even these do not show the real movement of the trade of these two countries as accurately as they might, since they include the value of re-exports, whereas what is required is the value of the 'special' trade, or exports of domestic produce only.

Year.			United Kingdom. Exports (general).	France. Exports (general).
			£	£
1840	...	...	51,309,000	40,044,000
1850	...	...	71,367,000	57,400,000

It must be noted that since the ocean traffic of England was certainly growing at a much greater rate than that of France, the re-exports must count for more in the figures relating to the former country than in those relating to the latter.

Bearing these points in mind, the chief point of interest in the above statement appears to be that the country which was liberating itself from the shackles of Protection, and that which had elected to remain bound by them, both seem to have done uncommonly well—an excellent instance in support of the advocates of both systems.

Not very much more can be said of the figures relating to the period covered by the Crimean War, although at that time Free Trade certainly got the best of it.*

Year.			United Kingdom. Exports (general).	France. Exports (general).
			£	£
1853	...	...	98,934,000	82,120,000
1854	...	...	97,185,000	78,080,000
1855	...	...	116,691,000	86,680,000
1856	...	...	139,220,000	100,636,000
1857	...	...	146,174,000	100,556,000

Next, in 1858, would have been felt the effects of the Indian Mutiny and the Chinese War, the financial crisis in New York of October, 1857, and the consequent 'panic and crash' in London of November, 1857. In 1859 came the Franco-Austrian War, and in 1861 commenced the long fratricide of the American Civil War, a terrible disaster, from which the recovery could not be speedy. The Austro-German War took place in 1866, and, finally, the Franco-German War in 1870-1871.

* The great expansion of exports in the years here under notice from the United Kingdom, and in a less measure from France, was occasioned also by the gold discoveries in California and Australia.

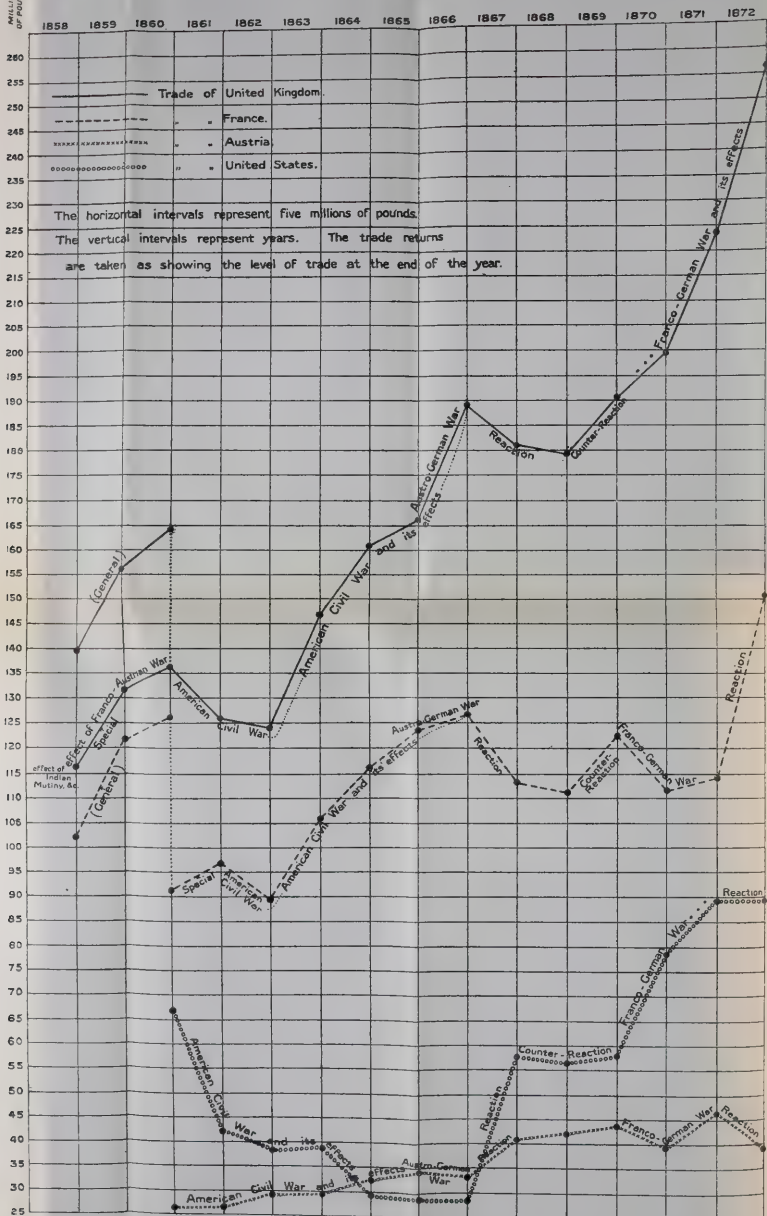
The figures, in thousands of pounds, are as follows :

Year.	United Kingdom. Exports.	France. Exports.	Austria. Exports.	Ger- many. Ex- ports.	United States. Exports.	Observations.
	£	£	£		£	
1858	{ General : 139,783 Special : 116,609 }	General : 102,440				Year after Mutiny, etc.
1859	{ General : 155,692 Special : 130,412 }	General : 122,280				Franco- Austrian War
1860	{ General : 164,521 Special : 135,891 }	{ General : 125,900 Special : 91,084 }	Special : 26,466		Special : 65,883	
1861	Special : 125,103	Special : 97,052	27,673	NO RETURNS.	42,687	American Civil War
1862	123,992	89,708	29,298		37,426	
1863	146,602	105,702	29,121		38,751	
1864	160,449	116,968	32,341		29,896	
1865	165,836	123,536	34,451		28,524	
1866	188,917	127,224	32,947		27,599	{ Austro- German War
1867	180,962	113,036	40,736		57,842	
1868	179,678	111,596	42,894		56,123	
1869	190,045	122,996	43,811		57,326	
1870	199,587	112,084	39,541		78,462	{ Franco- German War
1871	223,066	114,900	46,758		89,250	
1872	256,257	150,464	38,796		89,268	

In order to render the course of these figures more easy to follow, I append a diagram.

DIAGRAM SHOWING THE EFFECT OF WARS UPON EXPORTS.

MILLIONS
OF POUNDS



I have not, in the above tables, taken into account any of the relatively small wars in which the United Kingdom is continually engaged, because, greatly though they redound to the credit of her soldiers, and praiseworthy as, possibly, the 'pegging out of claims or posterity' may be, they do not so tax her resources as to affect her trade to her disadvantage. Indeed, they probably act, to some extent, as a stimulus at the time, and such new regions as are acquired may well maintain the stimulative action, so that we thus do not leave the whole of the profit to posterity, but reap part of it ourselves.

Nor do I, of course, pretend that the wars noted alone cause the fluctuations of trade shown. There are a variety of other influences simultaneously at work, among the chief of which (mentioned by Mr. Gladstone) are bad harvests, commercial panics and distress, cotton famine (indeed, almost any kind of famine), and large remissions of taxation, to which may be added fluctuation of prices and growth of population. But a careful examination of the lines indicating the course of trade of each of the four countries represented will show that times of war and their effects very notably produce the results above described.

From the commencement of the American Civil War until the year 1866, when the recovery of the United States from the staggering blow which it had thereby received set in, the trade of the two principal trading countries, England and France, followed with some difference of intensity (caused by the Austro-German War) the same course until 1870,* the first year of the Franco-German War.

The feeble trade-line of Austria, even, follows the general trace of the line of the two other countries up to that war.

* No doubt the commercial treaty of 1860 between the two countries, negotiated by Mr. Cobden, contributed to this simultaneous movement. But it had little to do with the other fluctuations of their trade-lines, and still less with the fluctuations of those of the other countries.

It fell then, at first, as might be expected, seeing the relatively greater interference with French trade on the Continent; but, following the general rule, it turned sharply upwards immediately afterwards. to decline again when the extraordinarily recuperative power of France manifested itself.

The trade-line of America falls between the years 1860 and 1866, when it takes a strong upward turn as the paralysis caused by the Civil War works off. It then remains practically level (coinciding now with the movement of the French and English trade-lines), until the Franco-German War sends it on its ascending course again with the English line, and contrary to the French line. It halts (but does not fall) on the recovery of French trade. At the outbreak of the American Civil War the English and French lines fall, owing, certainly, to the cotton distress. But, recovering from this, they rise together rapidly as the American line falls until 1867, when the reaction on each side commences, the American line rising, the English and French falling. In 1866 the Austro-German War had acted favourably on the British line, but had retarded the French owing to the continental position of France.

There is a recovery of both the English and French lines as the American trade-line, the reaction being for the moment complete, ceases to rise until the Franco-German War, when the English and American lines bound upwards in the most astonishing way, the English line maintaining its flight upwards until 1872, the French reaction having no effect upon it. This latter fact might, perhaps, be accounted for by the course of German trade. I regret that I have no returns for Germany reaching back so far, and that I am therefore unable to test that conjecture.

Be that as it may—and it is perhaps less important, as 1872 and 1873 were generally ‘boom’ years—it is impossible to look upon all these expected effects following upon wars

as merely a series of coincidences. A remarkable and fairly conclusive circumstance is this: that with 1872 ended the influence of a period of great wars upon English trade—for the Russo-Turkish War, for obvious reasons, would scarcely affect it except momentarily—and therewith ended also the extraordinary expansion of the export trade of the United Kingdom.

Only once since then, exclusive of the South African War years—viz., in 1890—when the figures rose to £263,531,000, to fall again in the following year to £247,235,000, have they passed the figures of 1872 (£256,257,000).^{*} Generally they have been at a lower level. This can, no doubt, be partially accounted for by the decline of prices, although this, again, in its turn, must be compensated to some extent by the increase of population, and therefore of demand, all over the world, and by other causes.[†]

My contention is that (naturally within limits, for if the whole world were at war trade would virtually cease) it is a state of war, and not, as is almost always contended, a state of peace, in great countries other than herself, which favours the trade of Great Britain, and I would add that this line of argument must, to some extent, hold good for our home trade also, although not, of course, when war in a foreign country deprives us of raw material which cannot be obtained in sufficiency elsewhere, as in the case of the cotton distress during the American Civil War. Except in such a case as the latter, a foreign war acts, in effect, protectively for us: the countries at war being unable to supply us with commodities which otherwise we should obtain from them, and which we may not be able to obtain elsewhere at greater

^{*} For 1899 the 'Statistical Abstract' gives £264,492,000. But from this must be deducted £9,111,000 for shipping previously unrecorded. The year 1900 is not included owing to the South African War.

[†] See footnote on next page.

advantage than we could produce them ourselves, our home production would also increase, and our home producers enjoy greater activity and prosperity.

Our prosperity between 1860 and 1872 was therefore largely due to the wars of other countries, and less than its advocates believe to the blessings of Free Trade; and the change from a period of continual wars which crippled one or other of our competitors, retarded their development, and threw a portion of their trade into our hands, to a period of prolonged peace, is one which has so altered for us the conditions of competition* that it is vain for us to imagine that, because a certain fiscal system may have been good for us then, it must therefore necessarily be good for us now, and for all time.

* If the diagram were extended onwards from the year 1872 to 1899, my contention would only be the more conclusively proved. The trade-lines of the United States and of Germany, with, of course, fluctuations, rise enormously in spite of the fall in prices, while that of England fluctuates, with the exception of one year previously noted, below the level of 1872.

CHAPTER IV

CHANGED CONDITIONS, CONTINUED: THE BRITISH EMPIRE

Change in sentiment and relations between mother-country and colonies—Mr. Bright on disadvantage of colonies—Former general opinion thereon—Commercial treaties of 1862—Indifference to colonies exists no longer—Trade considerations—Increase of wealth and power of colonies—Various statistics thereon—Error of considering colonial wealth stationary—Former Government position towards preferential trade—Conference of Ottawa—Lord Jersey's despatch.

THE next change to be noted is one which is in great measure due to the development of the 'Improvement of Locomotion,' and from which we have scarcely yet begun to reap the benefit which it must be the hope of the whole British race the future holds in store, not only for the United Kingdom, but for every part of that great Empire of which it is the centre—the change in the sentiment, and the gradual change in the relations, between the mother-country and the colonies.

The intimate conviction that the welfare and prosperity of the United Kingdom, and of almost all, if not of all, the British colonies, must depend to an immense extent upon the maintenance of the Empire—that we must all stand or fall together—used to be a rare exception, at any rate in these islands; now the exception has become the rule.

In the middle of the last century, and, indeed, for a good deal later, the connection with the colonies was not looked upon as worth much to preserve. In this connection

a speech delivered by Mr. Bright in 1868 may well be cited :

‘If,’ he said, ‘they [the colonies] are to be constantly applying to us for guarantees for railways, and for grants for fortresses, then I think it would be far better for them, and far cheaper for us, and less demoralizing for them, that they should become an independent State, and maintain their own fortresses, fight their own cause, and build up their own future without relying upon us.’

Such were the views, shared by the Manchester school, of one of the chief apostles of Free Trade on the value of the colonies to the mother-country ! More national considerations would assuredly have been also more rational. A little guidance of British capital by means of State guarantees towards the development of our own Empire, instead of allowing that capital to spread haphazard and broadcast in every other direction, would have been both sound policy and sound economy. If, for instance, we had equipped the Dominion of Canada, instead of the United States, with complete railway systems, the States of British North America might now have been at least the equals in wealth and power of their southern neighbours. No one will dispute the immense political advantage which such a situation would have presented for the British Empire, while the Dominion is at no natural economic disadvantage as compared with the United States. But the singular combination of insular self-worship and of *laissez-faire* which used to be mistaken for high statesmanship forbade such a course, and we deliberately set ourselves to cultivating all other estates in the world except our own.

It must, however, be admitted that impatience of Empire was not confined to the Manchester school alone. The opinion that the colonies were rather a nuisance than otherwise—that they were bound, finally, to sever themselves from the mother-country and declare their independence,

and that that would probably be an advantage rather than the reverse, since it would save us much expense and responsibility, and would leave us in quite as good a position as before in regard to trade, was common, and was not singular to one of the great political parties.

The colonies were, in fact, looked upon practically as foreign countries—prospectively at any rate—and they were to be treated as such. The United Kingdom was one entity, each colony was another. Sentiment in regard to them was laughed at; any yielding to it would have been looked upon as an unbusiness-like sacrifice of interest. They must be, and they were, placed in the position of developing themselves each on its own lines, without any foolish and unpractical nonsense about all being members of one Empire, so that at the first moment convenient to them they might develop themselves out of the Empire altogether.

And what would it matter if they did! An endless era of peace and goodwill among men would follow upon the universal Free Trade which was at hand, and whether the colonies remained colonies or became independent powers, we should do just as much trade with them, and make just as much money out of them (and they, of course, out of us), in the one case as the other.

Nothing, perhaps, is more characteristic of the spirit of those times than that celebrated article in the commercial treaties (now denounced) of 1862 with Belgium, and of 1865 with the German Zollverein, which precluded the colonies from admitting the produce or manufactures of the mother-country on more favourable terms than the same articles of those two countries.* The most extended powers of self-government and of framing their own tariffs were granted to them, but they were precluded by the mother-

* Under the 'most favoured nation' clause, this advantage was extended to all other nations.

country herself from treating her as anything but a stranger. It seemed like an underlining of our desire to show that we wished to hold them to us by only the slenderest of threads. Not, perhaps, that there was any particular intention about it; there were no particular intentions then.

‘We have tried’, said Lord Salisbury in 1891, ‘to find out from official records what the species of reasoning was which induced the statesmen of that day to sign such very unfortunate pledges. But I do not think they had any notion they were signing any pledges at all. I have not been able to discover that they at all realized the importance of the engagements into which they were entering.’

It was, apparently, a glorious climax of the *laissez-faire* principle then so fashionable—unless, indeed, there *was* a notion in it that it might hasten the advent of Free Trade.

However that may be, there never seems to have been any idea of connecting the various parts of the Empire together into one complete whole on any reasoned plan. The one and only idea—a perfectly sane, indeed an absolutely essential, idea—was to grant them the largest possible measure of self-government; everything else was left to chance.

Whether anything more could have been done, as Lord Beaconsfield thought that it ought to have been, at the time self-government was conceded, in the direction of an imperial tariff, the institution of some representative council in the Metropolis, and a ‘military code which should have precisely defined the means of the responsibilities by which the colonies should be defended, and by which, if necessary, this country should call for aid from the colonies themselves,’ it is useless to inquire.

What is important to note here is the completeness with which the indifference in matters colonial, which benumbed men’s minds during the third quarter of the nineteenth

century, has been transformed into sentiments of the keenest interest and pride. Recently these sentiments have been quickened and intensified by the splendid alacrity with which the self-governing colonies sprang to the assistance of the mother-country in the South African War, and by the virulent outburst of hatred against her on the part of many other great peoples, one of them among her keenest competitors, by which that war was accompanied.

Self-interest, misunderstood years ago, formerly led us to the conclusion that it would be best to shake ourselves free, as far as possible, from all intimate relations with the colonies. Self-interest, better comprehended now, is causing many of us to inquire whether we may not, by means of those very colonies, become so self-reliant, so self-dependent, and so far more powerful, that the feelings of other nations towards us may become a matter of relative indifference.

Trade considerations in those days reigned absolutely supreme and alone; nothing else was thought to be worth taking into account. Trade considerations now also are among the very first; and that is right, for however beautiful may be our sentiments, the Empire must go if its means are insufficient.

It may be, however, that, while giving trade considerations that place of prominent and first-rate importance which they should always preserve for us, we have attained a frame of mind in which we shall not 'totally pass by those moral and political considerations which make nations great, and by the influence of which alone men are distinguished from animals.' It may be, even, that if we can only find courage to desist from erecting bygone economic doctrines into a fetish, and from turning shudderingly away from any thought of departing from them by so much as a hair's breadth—as would a devout Churchman from doubts thrown on the foundation of his hopes for salvation—we may find

the interests of our pockets leading us on the same road as moral and political considerations, and a change in our fiscal policy more than warranted by the general change of conditions which has occurred.

In addition to the change in sentiment as between the mother-country and her colonies, there is an immense change in the wealth and power of the colonies themselves. To indicate how great this change has been, a few figures are here given in regard to Australasia, British North America, and British South Africa :

EXTERNAL TRADE OF AUSTRALASIA.

IN THOUSANDS OF POUNDS.

	1865.	1875.	1885.	1895.	1899.
Imports	35,145	47,272	63,528	50,764	72,310
Exports	30,398	44,407	51,640	64,073	89,004
Total volume of trade	65,543	91,679	115,168	114,837	161,314

EXTERNAL TRADE OF BRITISH NORTH AMERICA.

IN THOUSANDS OF POUNDS.

	1865.	1875.	1885.	1895.	1899.
Imports	16,225	27,172	24,091	23,996	34,741
Exports	13,359	17,566	19,576	24,628	34,075
Total volume of trade	29,584	44,738	43,667	48,624	68,816

EXTERNAL TRADE OF BRITISH SOUTH AFRICA.*
IN THOUSANDS OF POUNDS.

	1865.	1875.	1885.	1895.	1899.
Cape Colony : Imports	2,125	5,762	4,991	19,094	19,207
Natal : Imports ...	455	1,268	1,518	2,466	6,718
Total imports ...	2,580	7,030	6,509	21,560	25,925
Cape Colony : Exports	2,297	4,393	6,224	16,904	23,662
Natal : Exports ...	210	835	877	1,140	1,885
Total exports ...	2,507	5,228	7,101	18,044	25,547
Total volume of trade	5,077	12,258	13,610	39,604	51,472

TOTAL TONNAGE OF VESSELS ENTERED AND CLEARED
(EXCLUSIVE OF COASTING TRADE).
IN THOUSANDS OF TONS.

	1865.	1875.	1885.	1895.	1898.†
Australasia ...	4,091	6,448	12,565	18,169	21,822
British North America ...	6,564	5,785	8,235	11,762	13,536
Cape Colony ...	519	746	1,611	3,880	5,602
Natal ...	75	137	388	1,463‡	2,526
British South Africa total	594	883	1,999	5,343	8,128

* The Orange River Colony and the Transvaal Colony appear in neither this table nor any of those immediately to follow, since their inclusion would altogether vitiate the comparison.

† 1898 is taken instead of 1899, as the shipping returns for the latter year were affected by the South African War.

‡ For year ending June 30.

Thus the trade of Australasia increased in the period covered by the tables from £65,543,000 to the large total of £161,314,000, an increase of nearly 146 per cent.; and her ocean traffic from 4,091,000 tons in 1865 to 21,872,000 tons in 1898, an increase of over 430 per cent.

British North America has not progressed so speedily as the great group of her sister colonies in Australia; but her development, nevertheless, has been remarkable, her trade having increased by £39,232,000, or by nearly 133 per cent., and her ocean traffic by 6,972,000 tons, or by over 106 per cent.

On the other hand, although the trade of British South Africa is far from being so important in volume as that of Australasia, the rate at which it has progressed has been much more rapid—namely, from £5,077,000 to £51,472,000, or over 910 per cent; while her ocean traffic increased by about 1,268 per cent., from 594,000 tons to 8,128,000 tons.

Other figures tend to show the same immense development of energy and growth of wealth, but the returns which I have available are unfortunately not complete, while previously to 1875 there are in many cases none at all. I have been able, however, to extract further the following figures, which present great interest:

LENGTH OF RAILWAYS OPEN FOR TRAFFIC AT THE
END OF EACH YEAR.

	1875.	1885.	1895.	1899.
	Miles.	Miles.	Miles.	Miles.
Australasia	2,323	8,041	13,782	15,391
British North America	4,443	10,150	16,444	17,996
British South Africa	154	1,773	2,843	2,926
Total	6,920	19,964	33,069	36,313

POPULATION.

	1861.	1871.	1881.	1891.	1899.
Australasia ...	1,264,954	1,924,770	2,742,550	3,809,895	4,513,399
British North America ...	3,028,872	3,832,632	4,504,319	5,030,613	5,522,500
Cape Colony	267,096*	582,582†	720,984‡	1,527,224	2,265,556§
Natal ...	152,704	289,773	402,687	543,913	Not given
Total British South Africa	419,800	872,355	1,123,671	2,071,137	—

It is stated in the 'Colonial Office List' that during the last two decades the population of the colonies has grown from fifteen and a half millions in 1881 to twenty-three millions, excluding possessions annexed since last census, or from which there were no returns.

The table at the head of this page shows the figures, in regard to population for Australasia, British North America, and British South Africa,*so far as they can be collected from published official statistics.

Thus, since 1861 the population of Australasia has increased by nearly 300 per cent., that of British North America by about 82 per cent., and that of British South Africa, assuming the population of Natal in 1899 to have

* In 1856.

† Census of 1865, including British Caffraria, 86,201.

‡ Census of 1875, including British Caffraria, 122,154, but exclusive of Basutoland, Transkei, and Griqualand West.

§ Inclusive of the population of Pondoland and British Bechuana-land.

been 600,000,* by over 580 per cent. It must be observed, however, that this latter enormous increase is due, in large measure, to the annexation of fresh territories.

The Savings Bank returns, again, afford a striking proof of the rapidly increasing wealth and prosperity of the Colonial Empire. 'One very satisfactory feature,' to quote again from the 'Colonial Office List,' 'is the very general development of savings banks and other institutions for promoting thrift. There is scarcely a colony in which such institutions do not exist. The total amount of the deposits in these institutions on December 31, 1889, was £28,292,572. In 1894 the deposits reached £40,717,823, and in 1897 £44,953,583.' The Savings Bank returns for the same three groups of colonies as before are given below for the years 1885 and 1899 respectively:

AMOUNTS STANDING TO CREDIT OF DEPOSITORS AT
END OF YEAR, INCLUDING INTEREST CREDITED.

Year.	Australasia.		British North America.		British South Africa.	
	Total Amount.	Per Head of Population. †	Total Amount.	Per Head of Population. †	Total Amount.	Per Head European Population. †
1885 ...	£ 12,342,396	£ 3·87	£ 7,428,660	£ 1·57	£ 576,782	£ 1·72
1899 ...	33,174,862	7·35	10,971,261	1·99	2,256,450	6·22
Increase of 1899 on 1885	20,832,466	3·48	3,542,601	0·42	1,679,668	4·50

* In the 'Colonial Office List' for 1901 it is estimated to have been 902,365, but this includes the population of Zululand. It must not be forgotten that the proportion of coloured population to white in Natal is about 16 to 1; in Cape Colony (including Griqualand, Tembuland, Transkei, and Walfish Bay) it was, in 1891, about 3 to 1.

† In order to estimate the populations in 1885, I have taken the figures of two successive census returns and assumed that the annual rate of increment is constant.

Turning now to a few more general figures, the following tables show the external trade,* including inter-Imperial trade, and the total ocean traffic of all British possessions, excluding British India :

TOTAL VOLUME OF TRADE* OF ALL BRITISH
POSSESSIONS EXCLUDING BRITISH INDIA.

	1865.	1875.	1885.	1895.	1899.
	£	£	£	£	£
Imports ...	78,975,062	120,371,348	127,107,398	136,499,926	183,479,400
Exports ...	72,071,946	106,146,247	110,720,572	142,880,163	193,134,427
Total volume of trade ...	151,047,008	226,517,595	237,827,970	279,380,089	376,613,827

TOTAL TONNAGE OF VESSELS ENTERED AND CLEARED
FOR ALL BRITISH POSSESSIONS, EXCLUDING
BRITISH INDIA.

	1865.	1875.	1885.	1895.	1898.†
Tons ...	25,252,161	35,983,873	68,935,128	93,247,000	107,313,009

‘In 1875, 7,121 miles of railway and 22,116 miles of telegraph were open, as compared with 26,484 miles of railway in 1889, and 30,514 miles of railway in 1892. At the end of 1899 there were 38,000 miles of railway and 138,000 miles of telegraph.’† If the trade of British India be included the totals will be modified as follows :

* Including bullion and specie.

† Chosen as 1899 is affected by the South African War.

‡ ‘Colonial Office List,’ 1901, p. 24.

TOTAL VOLUME OF TRADE* OF ALL BRITISH POSSESSIONS, INCLUDING BRITISH INDIA.†

	1865.	1875.	1885.	1895.	1899.
	£	£	£	£	£
Imports ...	128,489,337	164,734,508	198,241,064	222,804,665	279,757,564
Exports ...	141,543,740	164,130,796	195,710,074	261,475,712	310,204,439
Total volume of trade ...	270,033,077	328,865,304	393,951,138	484,280,377	589,962,003

TOTAL TONNAGE OF VESSELS ENTERED AND CLEARED FOR ALL BRITISH POSSESSIONS, INCLUDING BRITISH INDIA.

	1865.	1875.	1885.	1895.	1898.‡
Tons ...	29,520,827	40,809,417	76,229,717	101,473,600	116,428,655

In 1875, 13,640 miles of railway were open in all British possessions when the mileage of British India is included, and 38,765 miles of telegraph. In 1889 the railway figures had risen to 42,479 miles, and in 1899 to 61,405 miles, while the telegraph mileage reached a total of 189,769 miles.

Sufficient figures have been given now to render apparent the very different place at present held in the world by the British Empire outside the borders of the United Kingdom from that in which it found itself sixty years ago. Then it was in its babyhood, and the statesmen of those days, considering that nursing it would be irksome and probably expensive—insisting always, and with curious

* Including bullion and specie.

† I have taken the figures as given in the 'Statistical Abstract,'—*i.e.*, Rx = £1.

‡ Chosen as 1899 is affected by the South African War.

short-sightedness, upon counting it as a stationary factor in the general account, and never considering the marvellous potentialities it contained—thought best to neglect it as far as possible, and to preach the theory that neglect was the best and most healthy atmosphere in which it could grow up. Wealth, and the pursuit of wealth, was our god*; any consideration that appeared to contain the least hindrance in the way of attaining that supreme object was *anathema maranatha*.

And since, by reason of many other influences than that of the doctrine on which their faith was fixed, the chief among which I have endeavoured to sketch, the authorities appeared to be right, and riches poured in upon us in rivers, we have allowed ourselves to shout all together—many of us truly not knowing wherefore we shouted—‘Great is Diana of the Ephesians!’

The period of babyhood has now passed away; the strong youth has forced himself upon us by his very strength, and even yet that strength is far from having reached its plenitude. Are we still to remain hypnotized, and to continue shouting until he is sick of us? Or shall we grasp the hand which he holds out to us, and at last allow both him and ourselves to profit by our union?

From our statesmen we have hitherto not obtained much light or leading.† A resolution was passed by the Congress

* ‘Of one thing we may be sure—viz., that if we should again have good seasons, and if the land should again bring forth its full and fair produce, the other causes of agricultural distress, whatever their social or political effect, will not, under the Free Trade régime, be an economical loss to the country’ (‘Free Trade *versus* Fair Trade,’ p. 192). This appears to have been considered by Lord Farrer to be a conclusive argument requiring no further comment; and, indeed, no comment is necessary.

† Mr. Chamberlain must be excepted. The fulfilment of the wish expressed by the Conferences of London and Ottawa, that an all-Pacific cable should be laid by agreement with the colonies interested, and the

of Chambers of Commerce of the Empire in June, 1900, asking Her Majesty's Government to appoint a Royal Commission to consider the question of the advisability of inter-Imperial preferential trade. Her Majesty's Government declined even to receive the deputation. What, then, was the object of the colonial conferences of London in 1887 and of Ottawa in 1894?

I hope to show, before concluding, that in inter-Imperial preferential trade is to be found the best solution to our revenue problems, and it would be premature to discuss it now. But I cannot avoid recalling the first of the three resolutions passed by the Conference of Ottawa with the last few words of its preamble:

' . . . And whereas this co-operation and unity [of the colonies with the mother-country] can in no way be more effectually promoted than by the cultivation and extension of the mutual and profitable interchange of their products, therefore resolved: That this Conference records its belief in the advisability of a Customs arrangement between Great Britain and her colonies by which trade within the Empire may be placed on a more favourable footing than that which is carried on with foreign countries.'

accomplishment of Australian Federation, prove his wide grasp of colonial facts and ideas, his ready and practical sympathy with colonial aspirations, and his power and will to carry them into effect, wherever he is left moderately free to act. His despatch in November, 1895, to the Governors of the various colonies, pressing 'the extreme importance of securing as large a share as possible of the mutual trade of the United Kingdom and the colonies for British producers and manufacturers, whether located in the colonies or in the United Kingdom,' and his subsequent speeches on the idea of an Imperial Zollverein, are evidence that he, at any rate, shares the views expressed by the Conferences. So far, in this respect, our national delusions and prejudices have been too strong for him.

[The above was written more than a year before Mr. Chamberlain's present striking and courageous initiative was taken.]

The Conference was attended by delegates from New South Wales, South Australia, Tasmania, Victoria, Queensland, New Zealand, and Cape Colony. Three delegates, those of New South Wales, New Zealand, and Queensland, voted against the resolution, because they looked upon it as conveying a dictation to Great Britain in regard to her fiscal policy.

The other two resolutions, the first of which recorded the desirability of preferential trade between the colonies, were passed unanimously.

‘I am impressed with the belief,’ wrote Lord Jersey in his report to the British Government covering the minutes of the proceedings of the Conference, ‘that the three proposals of the Ottawa Conference are sound, practical, and full of great Imperial advantages. Commerce cannot be based on sentiment alone, but it is possible to clear away the snags and obstacles which may divert its stream into new regions. The mother-country is asked to help in keeping clear the channels between her colonies and herself, so that the flow of trade may be increased, and the feeling of kinship uninterrupted.’

‘Never, perhaps, in our Empire’s history has such an opportunity presented itself. The “passionate sentiment” of Canada,* as Sir John Thompson so well described it, and the hopeful attachment of the growing colonies of Australasia and the Cape, turn eagerly at this time to the mother-country for some sign of her regard for their development. . . . It is within the power of Great Britain to settle the direction of their trade and the current of their sentiments for, it may be, generations. Such an opportunity may not soon recur, as the sands of time run down quickly. There is an impatience for action which would be tried by delay, and most sadly disappointed by indifference

* Practically proved since by her differential treatment in favour of British goods.

to the proposals which are now brought forward. A ready and generous consideration of them would be hailed with intense satisfaction.'

The interest of this despatch lies as much in the fact that the writer had been in intimate and continual communion with the colonial delegates, and was thus conveying their convictions and aspirations, as that it is from the pen of a practical economist. Seven years and a half after that despatch was written the British Government declined even to discuss the question of that preferential inter-Imperial trade which the colonies were so eager to establish.* 'Great is Diana of the Ephesians!'

* Mr. Chamberlain, to his lasting credit, has now reversed this policy of repulsion.

CHAPTER V

CHANGED CONDITIONS, CONTINUED: THE INDUSTRIAL PRE-EMINENCE OF ENGLAND

England's advantages when Free Trade established—Mechanical and industrial pre-eminence—Advantage of Free Trade under these conditions—Expectation that Free Trade would be generally adopted—One radical error of early Free Traders that specialization a fixed principle—Attitude of other nations—Of United States—Of Germany—Comparative statistics concerning the United Kingdom, the United States, and Germany—Summary of changes since Free Trade established.

ONE further change has to be noted before this preliminary discussion is brought to a conclusion. It must be remembered that at the time Free Trade was established England was already in a position of pre-eminent advantage over all possible competitors in the field of trade.* The enterprise of her sons had carried her commerce to all parts of the world, and had established it everywhere. The statistics available for those early years are not very reliable, I fear, but such as I have may serve as an indication of what was then the relative position of England in regard to other countries.

From the 'Statistical Abstract' we learn that the export trade of the United Kingdom in 1840 was £51,309,000. For the same year the export trade of the German States

* With the exception of France. But the main lines of French trade have never seriously competed with our own, being of a different class, in foreign markets.

was £27,000,000, that of the United States £27,500,000, and that of France £40,000,000. As Mr. F. Merttens said in an able paper on 'The Growth of Foreign Competition' read before the Manchester Statistical Society on April 24, 1901:

'We were the first to take advantage of the revolutionizing inventions of our great countrymen, such as Hargreaves, Watt, Arkwright, Bessemer, and others; and, indeed, by great natural resources and facilities of transport possessed by no other country, England got an enormous start in the industrial development. She manufactured goods with modern machinery at a lower cost than others by more antiquated methods, and gained a prestige for her productions which secured her the trade of the world.'

She was, in fact, in respect of the development of her trade, of machinery, of trained labour, and of commercial enterprise, far ahead of all the rest of the world, and was in the best position to take advantage of all improvements, whether in communications, in machinery, or of whatever kind, and of every 'fresh market' opened. No competition was to be feared in her home markets, since, even as it was, she could produce her own manufactures more cheaply and better than any other nation, and 'distance was a protection.'

No wonder that the early apostles of Free Trade believed—for their belief under the then existing conditions was well founded—that by the throwing open of her markets nothing but advantage could accrue to her. England was the best-fitted workshop in the world, manned by the most intelligent and most highly-trained mechanics and artisans in the world. She must inevitably become the principal workshop for the world; for the manufacture of all articles she made best—chiefly articles of every-day use, such as all kinds of linen and cotton goods, woollen and worsted goods of every description, iron and steel goods—in fact, all the 'lines' in manufactures which most served the common

daily wants of mankind, and for which there was, therefore, by far the largest demand, were practically her monopoly.

It followed that the more the world flooded us with raw material or manufactures the better. That could only do us good, for since we could produce our own raw material and manufactures more cheaply and better than others could, they would send us only what we could not produce or make so well as they, we paying them in commodities which they could not produce or make so well as we.

Thus the whole productive energy of the nation would be conducted into the most remunerative channels, and all its working power turned to the very best account. If one or other industry were ruined by the competition of foreign goods in the home market, that, although it might entail some temporary distress, was not really to be regretted. It merely meant that energy which had been wasted in work which could be better done by others was turned to more profitable use in work which others could not do so well, and in the end there would be more abundance for all—‘abundance of consumption, abundance of production, and of the employment necessary to production.’

It was hoped, and it was expected, that our adoption of Free Trade would present an example which would be quickly followed by the rest of the world, an acknowledgment of the soundness of our principles which would be greatly to our profit.* But it is a mistake to think that the early Free Traders based their policy chiefly upon that hope. Their† ‘ground was the principle, true then as now, that whether foreign nations maintain their own duties or not, it is for our interest to abolish ours, and that if we would but do this in our own interest our own trade must prosper, let foreign nations do what they will.’

* Cf. speeches delivered by Mr. Cobden on January 15 and July 4, 1846.

† ‘Fair Trade *versus* Free Trade,’ third edition, p. 108.

At the time that the crusade of Free Trade was being preached, and during the period that the policy was being carried into effect, there was, doubtless, an immense deal of truth in all this; while the prosperity which attended the country during all that time, and, as we have seen above, up to the year 1872, was such that, other causes of prosperity having been left unnoticed, the curious fanaticism with which the Free Trade doctrine came to be worshipped, and which still prevails in some quarters, may well be excused.

But at the root of the whole theory there lay a fallacy which the change of conditions from that age to ours is gradually bringing to light. There was no reason why our virtual monopoly of certain industries should remain with us, or that other nations should not be able to manufacture every class of commodity just as well and just as cheaply as we; specialization could not be fixed as an eternal principle.

If the expectation in regard to other nations had been realized, it is probable that this obvious truth would not have forced itself upon us for an indefinitely longer time. With the start which we had, both in manufacturing facilities and workmanship, other nations would have had no chance against us either in their own markets or anywhere else. We should no doubt have imported more and more raw material, and more and more manufactures, specialities, of the kind we did not affect. Agriculture would have been ruined certainly, as it has been; for in regard to that particular industry the predictions made have been, and must have been, altogether falsified.* But in other respects we

* In a speech delivered in the House of Commons on February 27, 1846, Mr. Cobden said: ' But the truth is, that you all know—that the country knows—that there never was a more monstrous delusion than to suppose that that which goes to increase the trade of the country, and to extend its manufactures and commerce—that which adds to our numbers, increases our population, enlarges the number of your customers, and diminishes your burdens by multiplying the shoulders

should have maintained our position until our output was no longer sufficient to meet the outside demand, and meanwhile other nations would have had to wait.

As a matter of fact other nations very soon found this out for themselves, and it would not be far from the truth to say that the consequence of our adoption of Free Trade was the precise reverse of what was expected: we thereby drove other nations still further into the ways of Protection instead of inducing them to follow our example.

The Americans, seeing the truth of English trade propositions for the England of that time, commenced by taking a step in our direction, with anything but good results for themselves. Hoping to effect a remedy by means of a hair of the dog which bit them, they advanced still further in the same direction in 1857 and only found their malady aggravated. Our industries flooded their markets. They then took two steps backward for each one they had taken forward, and began to feel better.

The internecine struggle of 1861-1864 intervening, their trade from 1861 to 1866 was temporarily shattered. But thereafter, and ever since, with the exception of the two relatively short periods following on the lower tariffs of 1883 and 1894, their trade has leapt up at a rate which puts us in the shade, whether relative or absolute figures be considered. The result is that described in Mr. McKinley's last speech and Mr. Roosevelt's first Presidential message, both of which are well within the memory of all.

The course of German trade is not at all dissimilar. Germany, also, in 1861 became inoculated with Free Trade doctrines, and, with the help of the French war indemnity which followed some years afterwards, seemed to bid fair to demonstrate in her own case the truth of those principles which had seemed to bring such great prosperity to Eng-

that are to bear them, and giving them increased strength to bear them, can possibly tend to diminish the value of the land.'

land. But it proved to be a false start, depression set in, and, under the guidance of Bismarck, Germany, 'ruled by the acutest brain that this century has seen in Europe,' returned (in 1879) to the heresy of Protection. Finding that it answered, she added to her sins in 1885, and, if Count von Bülow's efforts are attended by success, she is just about to become a worse sinner than ever.

Behind the wall of Protection other nations have been learning to manufacture our own specialities as well as we do, and have thus been effecting that vast change in the industrial world which has taken place since the United Kingdom embarked on the policy of Free Trade, and which is beginning to prove the unshaken clinging to that policy, become a part of the English gospel, to be a mistake, however genuinely believed in and well meant.

It may be that, as a distinguished American Free Trader once said to me, 'nations which are protected carry on their trade with a succession of losses,' but certainly the results do not support that view.

First let us consider some figures in regard to the internal economic conditions of the United Kingdom, the United States, and Germany respectively. The production of coal in the three countries from 1890 to 1900 has been as follows:

Year.	United Kingdom.*	United States.†	Germany.*
	Tons (thousands).	Tons (thousands).	Metric Tons (thousands).‡
1890 ...	181,614	140,883	70,238
1893 ...	164,326	162,815	73,852
1897 ...	202,130	178,930	91,055
1900 ...	225,181	240,966	109,290

* In 1872: United Kingdom, 123,947,000 tons; Germany, 33,306,000 tons. No returns for the United States.

† Includes lignite.

‡ Tons of 2,204 lb.

Of iron ore as follows :

Year.	United Kingdom.	United States.	Germany.*
	Tons (thousands).	Tons (thousands).	Metric Tons (thousands).
1890 ...	13,781†	16,036	11,406†
1893 ...	11,203	11,588	11,458
1897 ...	13,788	17,518	15,466
1900 ...	14,028	27,553	18,964

The production and total consumption (domestic and foreign) of pig-iron in the United Kingdom, the United States, and Germany were as follows :

Year.	Production.			Total Consumption, Domestic and Foreign.		
	United Kingdom.	United States.	Germany.‡	United Kingdom.	United States.	Germany.‡
	Tons (thousands).	Tons (thousands).	Metric Tons (thousands).	Tons (thousands).	Tons (thousands).	Metric Tons (thousands).
1890	7,904	9,203	4,658	6,819	7,731	4,897
1893	6,977	7,125	4,986	6,168	7,167	5,032
1897	8,796	9,653	6,881	7,749	8,476	7,202
1900	8,959	13,789	8,521	7,710	13,573	9,143
In 1872 the figures were: United Kingdom, 6,741,000 tons; United States, 2,548,713; Germany, 1,988,000.				In 1872: United Kingdom, 5,509,915 tons; United States, 1,952,150; Germany, 2,501,000.		

* Including Luxemburg.

† In 1872 the United Kingdom produced 16,585,000 tons; Germany, 5,896,000. There are no returns for the United States.

‡ Including Luxemburg.

In examining these figures, it is necessary to consider the increase of population, which I therefore give below :

Year (about).	United Kingdom.	United States.	Germany.
1870 ...	31,630,000	38,558,371	41,058,641
1890 ...	37,888,153	62,622,250	49,428,470
1900 ...	41,454,621	76,303,387	56,806,000

Immigration goes on at such an immense rate into the United States that it would be foolish to attempt to draw any conclusion as to its relative prosperity from the striking increase of population which took place between 1870 and 1900. It is one more most important change to note from the conditions of the early Free Trade years. In 1860 its population was 31,443,000, while that of the United Kingdom was 29,071,000.

But if, as statisticians and economists generally believe, the rate of increase of a European race is a gauge of its prosperity, then Germany, whose population increased by 39 per cent. between 1870 and 1900, must have prospered at least as much as the United Kingdom, in which the increase was 32·3 per cent. That, to be sure, is merely a kind of barometer, and taken alone might not show anything else than that the German race had prospered without in any way changing the relative industrial conditions which that race enjoyed in regard to our own. But the other figures seem to prove that change conclusively.

Look at these statistics how you will, it is clear that the relative conditions of the other two countries in comparison with the United Kingdom have completely changed since 1872 as regards the iron trade. It is argued that that is a matter of no importance; that if other countries prosper in

what were our own particular industries it is still so much the better for us, for by their increased wealth they become all the better customers of ours. That, too, within certain limits is true until their industries run parallel with ours all along the line.

But when that time has arrived, of what products of ours are they to be customers? Well, it might be answered, then we shall compete with them in 'neutral markets.' But that very answer only proves the complete change of the conditions from those under which Free Trade was originally established; formerly, in our own special goods, we had virtually no competitors. Figures in regard to other trades will only tell the same tale.

'The following gives the increase of spindles in the cotton mills of the principal countries :*

	1889.	1899.
United Kingdom	40,000,000	45,400,000
United States	10,700,000	18,600,000
Germany	4,000,000	8,500,000
Rest of Europe	16,500,000	25,000,000

'whilst the consumption of cotton rose, in bales of 500 pounds, according to Mr. Ellison :

	1880-1881.	1899-1900.	Increase per Cent.
United Kingdom	2,858,000	3,334,000	17
United States	1,694,000	3,856,000	128
Continent of Europe ...	2,365,000	4,576,000	94

* 'The Growth of Foreign Competition.' F. Merttens.

OTHER TEXTILE TRADES.—EXPORTS FROM THE UNITED KINGDOM.

IN MILLIONS OF POUNDS STERLING.

Year.	Woollen and Worsted Yarn.	Woollen and Worsted Manufactures.	Linen Yarn and Manufactures.	Silk Yarn and Manufactures.	Jute Yarn and Manufactures.
1880	£ 3·3	£ 17·3	£ 6·8	£ 2·7	£ 2·5
1899	4·9	14·8	6·0	2·0	2·4

‘Here we find a decline all round, except in worsted yarn, the production of which has enormously increased owing to the good demand from Germany. That country takes 65 per cent. of all we produce, which is more than the whole of the increase in our exports in woollen and worsted yarns since 1880.’

The fact that the exports of woollen manufactures of all kinds from Germany in 1881 were 18,420,000 kilogrammes, against 21,507,200 kilogrammes in 1899, whilst from the United Kingdom they were 272,874,900 yards, against 174,748,300 yards for the same two years respectively, affords an unpleasant comment on this fact.

‘America, we find, absorbs 50 per cent. of our silk spinings. We hold their trade, however, on sufferance only. Both countries are rapidly emancipating themselves from dependence on us, and before long they will become very formidable competitors in neutral markets. German exports of woollen yarn and manufactures have reached £13,700,000, against ours of £19,700,000; whilst her exports of silks amount to £8,300,000, and ours to £2,000,000.’*

* F. Merttens, *loc. cit.*

One more set of figures might be adduced :

EXPORTS OF COTTON MANUFACTURES *

Year.	United Kingdom.	United States.	Germany.
	Thousands of Yards.	Dollars.	Pounds.
1872	3,537,985	2,304,330	18,298,512
1899	5,438,944	24,859,000	83,471,430

The quantities are not given in the United States return. But, seeing the fall of prices since 1872, my thesis would only be the better established if the quantities could be substituted for the values.

I hope to have succeeded thus far in pointing out the vastness of the changes of conditions which have taken place since Free Trade became part and portion of our religion. The changes which I conceive to be established are the following :

1. The change attendant upon improved means of communication.
2. The change from a period of unrest and of great wars to a prolonged period of peace.
3. The change of sentiment and of relations between the colonies and the mother-country.
4. The change in the wealth and power of the colonies.
5. The change in the industrial capacity and enterprise of other nations.

* Domestic produce.

CHAPTER VI

FOREIGN MARKETS

Effect of these changes—British exports and imports—Sir R. Giffen on excess of imports—Subject requires continual scrutiny—Comparative classified statistics of United Kingdom, United States, Germany, and France—Analysis of these statistics—Deductions therefrom—Foreign competition in textile and steel and iron trades—Mr. J. Holt Schooling on shortage in British exports—Theory of 'something else'—Volume of home trade relatively to foreign trade—Necessity of maintaining exports—Our position of chief ocean carriers not eternally assured—American Shipping Combine of 1902—Mr. Morgan—Supremacy of our mercantile marine not founded on Free Trade.

I WILL, then, now attempt to consider what effect those changes have had, and what remedy, generally, might be applied to counteract it.

If the general course of the total volume of British trade (not including re-exports) be observed for the last twenty years, it will be found that, while the exports fluctuated below the level reached in 1872-1874 until 1896-1898, the imports on the whole increased rapidly.

In regard to the figures here exhibited, two points call for special attention: First, the excess of imports over exports; secondly, what may have been the variations in kind both of exports and imports.

It is not my intention to attempt to say anything new about the excess of imports. Far more time and research than it has been possible for me to devote to the subject

IMPORTS AND EXPORTS (IN MILLIONS OF POUNDS),
INCLUDING BULLION AND SPECIE, BUT EXCLUDING
RE-EXPORTS.

Average of Three Years.	Imports.	Exports.	Total Imports and Exports.	Excess of Imports.	
				Amount.	Percentage of Total Volume of Trade.
1872-1874 ...	339'3	277'6	616'9	61'7	10'0
1875-1877 ...	361'0	239'9	600'9	121'1	20'1
1878-1880 ...	344'2	227'2	571'4	117'0	20'5
1881-1883 ...	366'9	258'4	625'3	108'5	17'3
1884-1886 ...	332'1	241'2	573'3	90'9	15'8
1887-1889 ...	351'5	256'6	608'1	94'9	15'6
1890-1892 ...	398'2	276'4	674'6	121'8	18'0
1893-1895 ...	391'7	251'0	642'7	140'7	21'9
1896-1898 ...	444'2	284'9	729'1	159'3	21'8
1899-1901 ...	483'7	300'8*	784'5	182'9	23'3
1899 ...	465'2	290'7*	755'9	174'5	23'1
1900 ...	499'4	314'5*	813'9	184'9	22'7
1901 ...	486'6	297'3*	783'9	189'3	24'1

would be necessary to save me from saying what might not be true.

For an exhaustive, and, as far as it goes, a conclusive examination of the subject, reference should be made to the able paper read by Sir R. Giffen before the Royal Statistical

* Not including shipping previously unrecorded. For the year 1899 the value of shipping exported was £9,117,000; for 1900, £8,587,000; and for 1901, £9,160,000.

Society on January 17, 1899, and to the discussion which followed it. Therein the author, with much detail, estimated the 'invisible exports,' which balance our external trade accounts as follows: Earnings by ocean freights from £70,000,000 to £80,000,000 (in 1898); insurance and commission business £18,000,000; profits on capital invested abroad, and pensions and salaries due by a country like India, £90,000,000. The national trade accounts of other great trading countries are also discussed in much detail. The soundness of the principles laid down by Sir R. Giffen cannot be contested. Nevertheless, the figures given by him are, to some extent, conjectural, and it would be unwise to indulge in a complete feeling of security which may not be warranted.

It might be, for instance—I do not say that it is actually the case, but it is not absurdly improbable that it may be—that the excess of imports partly represents repayment to this country of capital invested abroad. If this were so, it is clear that, although the increased imports mean increased well-being for the consumers, and therefore, apparently, increased wealth, nevertheless, since they consist of consumable commodities, the ultimate effect, in so far as they represent repayment of capital, must be the impoverishment of the country. However that may be, the subject is one which should be continually scrutinized and examined by every competent economist.

In order to present a comprehensive and comparative picture of the variation in kind of our foreign trade, and of that of three other leading commercial countries, during the ten years 1890-1899, the tables on pages 64 and 65 have been prepared. The classification is, necessarily, rather arbitrary, and somewhat different results might be arrived at by those who work them out for themselves. The main difference in that here adopted for the respective countries is that in the case of the United States, on the

import side, woollen, cotton, linen, etc., yarns are lumped together with 'Raw Materials,' whereas in the case of Great Britain, France, and Germany, these yarns are classed in the returns as 'Manufactured Articles.' Yarns, however, are an unimportant item in the imports of the United States, and as the other classifications agree pretty well, the tables given may, I think, be taken as a fair basis of comparison.

On the import side it will be observed that, as would naturally be expected, in actual value (still more, therefore, in quantities) articles of food have largely increased for the United Kingdom, while for the United States there was a considerable decrease, in spite of the rapidly growing population. German imports of the same kind follow the same trend as British, while the French decline.

This shows that Germany, with her quickly augmenting population, is approximating always more nearly to the conditions which prevail here; that the United States are becoming continually more 'self-contained'; and that France, with a stationary population, imports less in value while prices fall, her own agriculture is developed, and her system of Protection and the sugar bounties take their effect.

As to 'Raw Materials,' there is an increase in absolute figures for the United Kingdom, although there is a decline in proportion to the whole volume of imports up to 1899.

In the United States there is little absolute increase of imports of raw materials, but, since there is a constant decline in the whole volume of imports, the relative increase is marked. In both France and Germany there is a strong upward movement of raw materials, both relatively and absolutely.

In manufactured articles the United Kingdom shows a large increase up to 1899, and France a considerable increase also, while for the United States there is a decrease both absolute and relative, and for Germany an absolute

increase, but, owing to her largely augmented imports of the other two classes, a relative decrease.

The export figures I propose to examine in rather more detail.

In 'Articles of Food and Live Animals,' the United Kingdom, the United States, and Germany all show an increase, most marked, so far as absolute figures are concerned, in the case of the United States, which, however, show a relative decrease owing to the great expansion of the whole volume of their export trade. Germany and the United Kingdom show only a moderate absolute increase—the former a relative decrease arising, likewise, from the general expansion of her exports, and the latter a relative increase owing to the stationary condition of the other two classes in her case.

The principal articles which took part in the upward movement were: for Great Britain, biscuits, bread, confectionery, and miscellaneous provisions—most of which may properly be considered to be, at any rate, partial manufactures—and fish; for the United States, breadstuffs and meat and products of meat, by far the larger proportion of which may be looked upon as raw material; and for Germany, grain, flour, potatoes, and sugar—(a result of the *kartel*)—partly raw material, therefore, and partly 'part-manufactures.'

France shows quite a marked decrease in her exports, as in her imports, of this class of her trade. The articles which chiefly contributed to the former are: brandy, spirits, wines, and butter (manufactures); eggs, fruit, and grain (raw materials); and flour, and even sugar—the competition of the *kartel*, again, no doubt—(part-manufactures). These decreases took place both in quantities and values for all the articles mentioned except fruit and sugar, both of which increased largely in quantity, but decreased in value.

In raw materials the variations, in the case of Great

Britain, may be almost entirely accounted for by the movement of the coal trade. The United States, Germany, and France all show an increase, comparatively slight in the case of the first, which relatively, indeed, remained absolutely stationary, but very marked, both relatively and absolutely, in the case of Germany, and in 1899 of France. The United States exported more cotton-seed oil, crude mineral oil, oil-cake, tobacco, wood, fertilizers, etc.; Germany more coal, dyes, and iron; and France, more hides, silk, and wool.

Considering, lastly, manufactures—the most interesting class of all—we see that the exports of the United Kingdom remained almost stationary, on the average, throughout the whole of the ten years. Some compensation may be found for this in the increase in her food exports, which are at least partly manufactures; but even this would not nearly (I am speaking of the averages) redress the balance in comparison either to Germany or to the United States.

There was a fine leap up in 1899 for all these three countries as well as for France, but not so great even when taking manufactured articles of food into account for the United Kingdom as for the United States and Germany, if that year be compared with the first half of the period under observation.

The principal articles which contributed to this rise in the case of the United Kingdom were textiles, both in quantity and value, and metals, almost entirely in prices.

In the case of the United States, the exports of manufactures had a continual and rapid rise, both relatively and absolutely, in the second five years compared to the first, and nearly all her manufactures contributed to it; among the chief may be cited agricultural implements, chemicals, cotton manufactures, cotton-seed oil, and iron and steel manufactures, including machinery and tools.

In relation to the whole volume of her exports, the figures

IMPORTS.

Class and Years.	United Kingdom.		United States of America.		Germany.		France.			
	Average Yearly Value in Thousands of Pounds.	Percentage of Total Value.	Average Yearly Value in Thousands of Pounds.	Percentage of Total Value.	Average Yearly Value in Thousands of Pounds.	Percentage of Total Value.	Average Yearly Value in Thousands of Pounds.	Percentage of Total Value.		
Articles of Food and Live Animals.	1890-94	181,822 43'4	57,657 35'6	71,680 35'4	54,050 31'9	1895-99	195,366 43'1	45,342 30'5	80,340 34'0	44,218 27'0
	1899 ...	210,157 43'4	43,222 30'3	86,400 31'5	38,040 21'1					
Raw Material.	1890-94	162,050 38'8	56,330 34'2	85,860 42'5	90,138 53'6	1895-99	173,522 38'3	56,455 38'4	106,450 44'9	94,252 57'5
	1899 ...	183,568 37'8	57,953 40'6	130,350 47'6	113,584 62'8					
Manufactured Articles.	1890-94	74,809 17'8	49,466 30'2	44,770 22'1	24,586 14'5	1895-99	84,100 18'6	46,231 31'1	49,940 21'1	25,252 15'5
	1899 ...	91,311 18'8	41,625 29'1	57,400 20'9	29,108 16'1					
Total Imports.	1890-94	418,681 —	163,453 —	202,310 —	168,774 —	1895-96	452,988 —	148,028 —	236,730 —	163,722 —
	1899 ...	485,036 —	142,800 —	274,150 —	180,732 —					

for the manufactures exported by Germany remained stationary, but, absolutely, they recorded a fine average increase (very nearly equal to that enjoyed by the United States). The articles which showed the most marked

EXPORTS.

Class and Years.		United Kingdom.		United States of America.		Germany.		France.	
		Average Yearly Value in Thousands of Pounds.	Percentage of Total Value.	Average Yearly Value in Thousands of Pounds.	Percentage of Total Value.	Average Yearly Value in Thousands of Pounds.	Percentage of Total Value.	Average Yearly Value in Thousands of Pounds.	Percentage of Total Value.
Articles of Food and Live Animals.	1890-94	11,448	4.9	139,355	75.3	21,200	13.7	30,402	22.2
	1895-99	12,904	5.4	144,796	68.1	23,660	12.9	26,413	18.4
	1899 ...	13,568	5.2	164,743	65.7	23,950	11.4	27,012	16.3
Raw Materials.	1890-94	19,808	8.5	11,195	6.1	33,680	21.7	32,760	24.0
	1895-99	20,753	8.6	12,832	6.1	41,830	22.6	38,370	24.0
	1899 ...	26,570	10.0	15,327	6.1	50,800	24.1	48,412	29.3
Manufactured Articles.	1890-94	203,096	86.6	34,180	18.6	100,220	64.6	73,624	53.8
	1895-99	205,964	86.0	54,989	25.8	118,930	64.5	79,506	55.1
	1899 ...	224,354	84.8	70,748	28.2	135,600	64.5	90,680	54.6
Total Exports.	1890-94	234,352	—	184,730	—	155,100	—	136,786	—
	1895-99	239,621	—	212,617	—	184,420	—	144,289	—
	1899 ...	264,492	—	250,818	—	210,350	—	166,104	—

upward movement were 'books, maps, and engravings,' cotton manufactures, refined sugar, iron and steel manufactures, and machinery. Her woollen manufactures increased in quantity but decreased in value.

IMPORTS PER HEAD OF POPULATION.

Class.	Year.	United Kingdom.	United States of America.	Germany.	France.
Articles of Food and Live Animals.	1890	£ 4'73	£ 0'83	£ 1'41	£ 1'50
	1899	5'18	0'58	1'55	0'99
Raw Materials.	1890	4'42	0'87	1'80	2'44
	1899	4'52	0'78	2'34	2'95
Manufactured Articles.	1890	2'07	0'87	1'00	0'68
	1899	2'25	0'56	1'03	0'75
Total Imports.	1890	11'22	2'57	4'21	4'62
	1899	11'95	1'92	4'92	4'69

French manufactures also, except in the last year of the ten, progressed at a more rapid rate than British, the chief contributions to the advance, both in quantity and value, being apparel (in 1899), chemical products, copper wire, cotton manufactures, earthen- and glass-ware, machinery, and millinery.

Turning now to the figures showing the various countries, and the imports and exports per head in the first and last of the ten years discussed, and combining them with the trade figures which have been considered, the following deductions may, I think, be drawn :

First, generally, that while we are forced to rely more and more upon foreign countries—far more than do they—for our supplies of food and raw material, and while our imports of manufactures increase also, our export trade,

EXPORTS PER HEAD OF POPULATION.

Class.	Year.	United Kingdom.	United States of America.	Germany.	France.
Articles of Food and Live Animals.	1890	£ 0·32	£ 2·12	£ 0·47	£ 0·89
	1899	0·33	2·22	0·43	0·70
Raw Materials.	1890	0·57	0·19	0·72	0·94
	1899	0·65	0·20	0·91	1·26
Manufactured Articles	1890	6·14	0·50	2·17	2·08
	1899	5·53	0·95	2·43	2·35
Total Exports.	1890	7·03	2·81	3·36	3·91
	1899	6·51	3·37	3·77	4·31

POPULATION.

Year.	United Kingdom.	United States.	Germany.	France.
1890	37,485,000	62,622,000	49,428,000	38,343,000
1899	40,555,000	74,321,000	55,654,000	38,500,000

while it has increased absolutely, has decreased both in proportion to the whole volume of trade and per head of our population.

Next, that the absolute increase which has taken place in our export trade cannot, in kind, be regarded with unmixed satisfaction, since a large part of it consists of coal,—a

national asset which cannot be renewed. Indeed, the whole relative decrease has taken place only in manufactured articles, whether articles of food be considered or not—which is not, I conceive, the ideal condition on which we desire our foreign trade to be carried on.

Lastly, that the increasing competition of other trading countries, whether we consider our home markets, as evidenced by our imports from abroad, or foreign markets, as evidenced by a comparison, in quantity or in kind, of our trade figures with theirs, runs through these figures. In those lines of manufactures in which we once, rightly, considered ourselves without rivals—namely, in the textile and steel and iron trades—that competition is particularly marked. This point seems to me to be so important and to be so little realized, that I will venture to go into it, as briefly as possible, in more detail.

The tables on pages 72 and 73 show the movements of the textile trades in five-yearly averages for the years 1870-1874, 1886-1890, and 1895-1899.*

As the quantities of the textiles imported are not given in all cases, but only the values, I have added a few average import prices (see p. 74) in order that some idea may be retained how the quantities have varied in relation to the values.

On the other hand, I have been obliged to separate out the quantities in more detail than is desirable, on account of some entries being effected in weights, some in lengths, and some in numbers, a fact which, I fear, may give the textile table a somewhat formidable appearance. But I venture to hope that this may not deter the reader from bestowing on that table the careful attention which it will repay.

* I have selected these periods because the first covers the culminating period of our export trade before 1899, and the other two the closing five years of the last two decades, 1899 being chosen as the concluding year for reasons previously given.

In each great class of the textile trade it will be seen that while the imports increased, both in absolute figures and per head of population, in the two last quinquennial periods cited, the exports followed an exactly contrary movement and decreased, in values, with still greater rapidity.

There were increases in quantities exported as regards woollen yarns throughout; linen and jute yarns throughout, and manufactures for 1886-1890; silk manufactures and thrown silk throughout; and cotton yarns and manufactures, practically throughout, except 'stockings and socks' in 1895-1899.

The values, however, show a uniform decrease, as do, generally, the quantities per head of population for the five years 1895-1899 as compared with 1886-1890.

Woollen manufactures decrease the most rapidly in all ways, while woollen yarns show a constant increase—a fact previously commented upon.*

Almost the same characteristics attended the iron and steel trades.

The imports increased uniformly whether in absolute quantities and values, or in quantities and values per head of population.

The exports increased on the whole in absolute quantities, and far more (owing to the rise in prices in the more recent period) in values, but decreased on the whole per head of population both in values and quantities, with the exception of 1899, which showed a marked recovery in all respects.

No such recovery, however, is observable in the exports of what was once a distinct British speciality in an allied trade, namely, hardware and cutlery.

Here the decline is rapid and constant, the quantities exported in the last quinquennial period shown being only one-third of those exported in the first. The one redeeming feature was a rise in values as time went on; but, seeing

* See p. 56.

IMPORTS AND EXPORTS OF IRON AND STEEL AND
MANUFACTURES OF IRON AND STEEL (INCLUDING
MACHINERY IN VALUES BUT NOT IN QUANTITIES,
AND EXCLUSIVE OF IRON ORE).

Average for Five Years.	Imports.				Exports.			
	Quantity.	Value.	Per Head of Popu- lation.		Quantity.	Value.	Per Head of Popu- lation.	
			Quantity.	Value.			Quantity.	Value.
Cwts.	£	Tons.	s. d.	Tons.	£	Tons.	£ s. d.	
1870-1874	110,272	1,830,344	0035	1 2	2,964,578	38,870,233	0093	1 4 4
1886-1890	380,473	4,241,305	0103	2 3	3,937,139	39,964,140	0106	1 1 7
1895-1899	523,574	7,251,806	0131	3 7	3,406,715	41,063,784	0085	1 0 10
1899	644,932	9,534,906	0159	4 8	3,717,180	47,754,165	0092	1 3 6

EXPORTS OF HARDWARE AND CUTLERY.

Average for Five Years.	Quantity.*	Value.*	Per Head of Population.	
			Quantity.	Value.
	Cwts.	£	Lb.	s. d.
1870-1874 ...	930,321†	4,450,037	3'26	2 9'56
1886-1890 ...	463,733	2,937,751	1'41	1 7'11
1895-1899 ...	310,233	2,041,806	0'87	1 0'30
1899 ...	297,402	2,139,392	0'82	1 0'66

* Cutlery is entered in value only.

† Average for four years 1871-74, the entry for 1870 having been in value only.

that this in no way arrested the fall in quantities, it only emphasized the fact that our competitors were outdistancing us. No comfort, again, can be derived from the import returns, so far as any information can be derived from them. The imports were, apparently, too inconsiderable to be separately distinguished until the year 1897. But then (ominous sign!) they commenced to appear in the returns, and thereafter in increasing amounts. We imported in 1897, 710·8 thousand pounds' worth; in 1898, 895·3 thousand pounds; in 1899, 1,113·6 thousand pounds. Swiftly diminishing exports, swiftly increasing imports, show surely a disquieting displacement of trade.

It is far from my wish to play the part of a Cassandra. It would be gross exaggeration to call out that our foreign trade has left us, and that commercial ruin stares us in the face. But it is not exaggeration—it is a mere statement of fact—to say that, compared with the growth of our population, it is, on the whole, rather worse than stationary.

If, instead of considering the growth of population of these islands only, we were to take account of that of the whole world, and therefore of the increased demand of the world generally, this condition of our foreign trade becomes still more evident.

In an article—admirably conceived and compiled—on 'British Commerce,' by Mr. J. Holt Schooling, in the *Monthly Review* for January, 1902, are tabulated all imports by all other countries from all sources during the decennial periods 1880-1889 and 1890-1899, with the result that all foreign countries are shown to have increased their imports (bullion and specie being excluded from the calculations) by 11 per cent., and all British possessions by 17 per cent.

He then applies these percentages to British exports during 1891-1900, 'in order to ascertain the "expected" British exports during those years to foreign countries and to British possessions respectively'—i.e., the value which our exports

TEXTILES.

YEARS.	DESCRIPTION.	IMPORTS.				EXPORTS.			
		QUANTITY. (000's omitted.)	VALUE. (000's £.)	PER HEAD OF POPULATION.		QUANTITY. (000's omitted.)	VALUE. (000's £.)	PER HEAD OF POPU- LATION.	
				Quantity.	Value.			Quantity.	Value.
Worsted and Woollen Yarns and Manufactures.									
Average, 1870-1874	Yarn Manufactures	12,343 lb. (not given)	5,179	0'39 lb. —	£0'16	37,745 lb. 349,135 yds.	31,508	1'18 lb. 10'97 yds.	£0'99
Average, 1886-1890	Yarn *Manufactures	18,337 lb. 67,571 yds.	10,944	0'49 lb. 1'83 yds.	£0'29	42,975 lb. 275,472 yds.	24,586	1'16 lb. 7'46 yds.	£0'66
Average, 1895-1899	Yarn *Manufactures	19,337 lb. 85,370 yds.	12,458	0'48 lb. 2'14 yds.	£0'31	60,578 lb. 203,422 yds.	21,578	1'52 lb. 5'10 yds.	£0'54
1899 ...	Yarn *Manufactures	20,653 lb. 76,485 yds.	12,064	0'51 lb. 1'88 yds.	£0'30	63,700 lb. 174,748 yds.	19,665	1'57 lb. 4'31 yds.	£0'48
Linen and Jute Yarns and Manufactures, including Cordage and Twine.									
Average, 1870-1874	Yarn, thread for sewing, cordage, and twine Manufactures	(not given)	3,437	—	£0'11	52,590 lb. 300,439 yds.	11,449	1'96 lb. 9'44 yds.	£0'36
Average, 1886-1890	Yarn, thread for sewing, cordage, and twine Manufactures	(not given)	5,742	—	£0'15	69,185 lb. 419,945 yds.	9,459	1'87 lb. 11'38 yds.	£0'25
Average, 1895-1899	Yarn, thread for sewing, cordage, and twine Manufactures	(not given)	6,865	—	£0'17	88,150 lb. 406,918 yds.	8,792	2'21 lb. 10'22 yds.	£0'21
1899 ...	Yarn, thread for sewing, cordage, and twine Manufactures	(not given)	7,495	—	£0'18	89,979 lb. 387,543 yds.	8,833	2'22 lb. 9'56 yds.	£0'22

Silk Yarns and Manufactures.

	†Manufactures (broad piece) goods only) ... } Thrown silk	(not given) 144 lb.	11,023	— 0'004 lb.	£0'34	4,088 yds. (not given)	3,339	0'13 yds. —	£0'10
Average, 1870-1874									
	†Manufactures (broad piece) goods only) ... } Thrown silk	(not given) 492 lb.	11,360	— 0'01 lb.	£0'30	8,266 yds. 655 lb.	2,482	0'22 yds. 0'02 lb.	£0'07
Average, 1886-1890									
	†Manufactures (broad piece) goods only) ... } Thrown silk	(not given) 449 lb.	16,657	— 0'01 lb.	£0'42	8,131 yds. 945 lb.	1,771	0'20 yds. 0'02 lb.	£0'04
Average, 1895-1899									
	†Manufactures (broad piece) goods only) ... } Thrown silk	(not given) 378 lb.	16,395	— 0'01 lb.	£0'40	9,737 yds. 1,441 lb.	1,980	0'24 yds. 0'03 lb.	£0'05
1899 ...									

Cotton Yarns and Manufactures.

	Yarn and thread for sewing Manufactures other than stockings and socks ... }	(not given)	1,430	—	£0'04	213,544 lb. 3,462,553 yds. 1,018 doz. prs.	75,200	6'71 lb. 108'81 yds. 0'03 doz. prs.	£2'36
Average, 1870-1874									
	Yarn and thread for sewing Manufactures other than stockings and socks ... }	8,331 lb. 39,308 yds.	2,700	0'23 lb. 1'06 yds.	£0'07	273,345 lb. 4,983,747 yds. 1,586 doz. prs.	71,347	7'41 lb. 135'09 yds. 0'04 doz. prs.	£1'93
Average, 1886-1890									
	Yarn and thread for sewing Manufactures other than stockings and socks ... }	5,360 lb. 49,728 yds.	4,184	0'13 lb. 1'25 yds.	£0'11	208,933 lb. 5,139,615 yds. 712 doz. prs.	65,905	6'75 lb. 129'04 yds. 0'02 doz. prs.	£1'65
Average, 1895-1899									
	Yarn and thread for sewing Manufactures other than stockings and socks ... }	4,694 lb. 42,735 yds.	4,944	0'12 lb. 1'05 yds.	£0'12	243,830 lb. 5,438,944 yds. 596 doz. prs.	67,548	6'01 lb. 131'11 yds. 0'02 doz. prs.	£1'66
1899 ...									

• Blankets taken at 5 yards per pair. † 'Other kinds' of silk manufactures are not given by quantity, but are included in the values.

	Average Import Prices.			
	1870-1874.	1886-1890.	1895-1899.	1899.
Woollen yarn per lb. ...	28·59d.	27·85d.	23·80d.	24·68d.
Linen yarn ...per lb. ...	not given	9·56d.	9·33d.	9·50d.
Jute ... ..per cwt.	18·61s.	12·49s.	11·66s.	12·75s.
Thrown Silk per lb. ...	£1·60	£0·89	£0·76	£0·76
Cotton yarn...per lb. ...	not given	1·10s.	1·03s.	1·05s.

ought to have attained had our exporting power kept pace with the purchasing power of the rest of the world.

Under this test a shortage is shown in British exports, during the later ten years, of £108,000,000 in respect of foreign countries, and of £144,000,000 to all British possessions, a total average shortage of £25,000,000 a year. 'No question of alteration in prices,' he observes, 'can come in, for in this world comparison all nations are exposed to alteration in the buying or selling price of their articles of import or of export, and we obtain the evidence of the actual values of the world's imports and our exports.'

Reducing the statement to percentages, it appears that, while all foreign countries increased their purchases from all sources by 11 per cent. during 1890-1899, and all British possessions by 17 per cent., our exports to them during 1891-1900 increased by 4 per cent., and decreased by 1 per cent. respectively.

To conclude, as did Sir Robert Giffen in the paper cited at the commencement of this chapter, that, because some articles of export show expansion, there is therefore 'no little vigour' in certain departments of our export trade, although our textile branches—which, by the way, are, with iron and

steel, at the head of our manufactured exports—show a tendency to languish, is small consolation.

It is shown in Mr. Schooling's essay that in 1891-1900 there was a total rise in all our 'special' exports—that is, exports of home produce—of 55·23 millions of £ as compared with 1881-1890, but that, if coal were left aside, there would have been a fall of £30,000,000. Looking at these figures in the light of those given above, it is impossible to conclude otherwise than that our trade abroad is being gradually taken from us; and it would be unwise to bask in the hope that, in face of increasing and continually keener competition, ground lost will be, to any considerable extent, recovered.

The theory that, if displaced from one trade, we shall still always be able to recoup ourselves by turning the displaced energy to the manufacture of 'something else,' will no longer, I fear, hold water. The articles of necessity or luxury required by the human race do not form an infinite series, and those who believe British greatness to depend upon her foreign trade, and who rely on the theory of 'something else' to maintain it, are surely leaning on a broken reed.

Is it not, however, a mistake to allow the word 'trade' to become, as in most discussions of the subject that I have ever seen it has become, synonymous with 'foreign trade'?

It is, perhaps, natural that that should be so, for so furious was the battle waged over Free Trade,—and Free Trade implies trade with foreign countries, or, at any rate, external trade,—so persistently was, and is, that battle waged round the point whether that policy is advantageous or the reverse to our foreign trade, with but scant reference to what may be happening within our own borders, that the perspective has become falsified. We are too close, perhaps, to the giant to see him; our eyes are always fixed on the dwarf.

Mulhall calculated our internal trade to be 85 per cent., and our foreign trade to be 15 per cent. of the whole. Sir Robert Giffen, in the paper before alluded to, mentions a very similar estimate of his own—namely, that only from about a sixth to an eighth ‘of the whole income of the people’ is derived from foreign exports.

It would be the direct reverse of my meaning to deprecate the value to us of our foreign trade. It is, as Mr. Henry Birchenough points out,* a most valuable stimulant to the manufacturing industry of the country; it ‘takes us abroad, and brings out those qualities which make us a great empire-building people. . . . If from a decline in our manufactures [exported] we cease to be able to provide loans partly in cash and partly in goods, he felt sure that our loan business would seriously decrease, and thus the invisible exports would tend to shrink with the visible ones.’

The somewhat extreme picture, again, drawn by Mr. Leonard Courtney, of the English becoming a people of *rentiers* living sluggishly upon imports sent in payment of their investments abroad is unpleasant to contemplate—the result of such a possible state of affairs still more so.

Moreover, I do not forget that, as at present constituted, we are so dependent upon foreign countries that we are bound to continue to export largely in order to pay for our supplies; while, should our export trade be stationary and our imports grow, we must ultimately come to the point at which we shall be paying for them out of capital, if, indeed, that point has not already been reached. We cannot rely upon the continuance of our position as chief ocean-carriers to the world, as upon an eternal certainty, to compensate us for possible diminution in our visible exports. There are signs that other nations, by means in accordance with sound economic principles or not, are determined to compete with us on that ground also. Our tonnage has

* *Journal of the Royal Statistical Society*, vol. lxii., part i, p. 77.

increased enormously, but lower freights prevent that branch of invisible exports from expanding at anything like the same rate.

Our total tonnage, sailing and steam, was 6·6 millions of tons in 1880, 8 millions in 1890, and 9·3 millions in 1900. Adopting Sir R. Giffen's formula for the comparison of efficiency (1 steam ton = 4 sail tons), the comparative sail tonnage in the same three years was 14 millions, 23 millions, and 31 millions respectively. At the same time freights, between 1880-1881 and 1898, fell largely,* although subsequently, until, and including 1900, they appear to have been better.

Messrs. Angier Brothers' circular on steamship freights in 1901 is not, however, encouraging reading. 'The comparison of the last four cycles (ten-year periods),' we learn from the circular, 'brings out a marked similarity in the salient features of each component year and the course of prices; and a still further retrospect shows that in the successive decades the periods of inflation gradually shrink, whilst the periods of depression correspondingly stretch out.' The whole of the vastly increased tonnage was employed in 1901, but freights suffered a severe decline, starting at 20 to 30 per cent., and reaching 50 per cent. before the close of the year. Clearly, the invisible export from this source must have suffered a large reduction in that year, although the excess of imports showed a considerable increase.

On the other hand, Great Britain is pre-eminently mistress of the seas in her mercantile fleet, her steam tonnage being

* Sir R. Giffen, 'Excess of Imports,' p. 10. Allowing for increased carrying capacity, etc., the gross earnings are estimated at £4 per ton in 1898 against £5 in 1882 for sailing vessels, £12 against £15 for steamers; and the total earnings of the mercantile fleet, allowing for outlays on ships abroad, at between £70,000,000 and £80,000,000 against about £60,000,000.

not far from equal to the whole of the tonnage of the other 'principal maritime countries' put together.* We appear to be, for the present, beyond danger of any really serious foreign competition in this respect. But so, also, we seemed to be, not so very many years ago, in the textile and steel and iron trades: the fact that we have an advantage once is no reason why we should keep it for ever. Indeed, the advantage which we now possess is not quite so great as it seems, a certain number of ships sailing under the British flag being owned, or partly owned, by foreigners.

Moreover, since the above observations were originally written, the American shipping combine of 1902—by which, as Mr. Elzbacher† graphically puts it, America 'scooped off the ocean the very cream of our merchant fleet'—has made its appearance, and dealt a severe shock to our insular self-complacency. This sudden carrying of the commercial war into the heart of our country—the very region which had been so confidently pointed to as the proof, in spite of all that might be said to the contrary, of the maintenance of our commercial supremacy, and the superiority of our fiscal policy—is the most patent evidence of the effect of the tariffs, subsidies, and trusts which are revolutionizing economic conditions, and of the futility of our pathetic constancy to Free Trade principles to combat them.

It was almost amusing to note the outburst of wonder at Mr. Morgan's audacity, the inflated panegyrics of his genius indulged in by his admirers, the dismal possibilities of his failure indicated by the sceptics. But Mr. Morgan is only the personal expression of the economic conditions of the times—a 'Napoleon of finance' certainly, but in the sense that, as Napoleon in his time in the arts of war, so now Mr. Morgan in commerce, takes advantage of possibilities un-

* Not including those registered in the United States for the home and river trades.

† *Contemporary Review*, July, 1902.

perceived by old-fashioned academic critics in this country.* These, following the exact precedent of Napoleon's adversaries in his earlier campaigns, elect to be bound by 'rules of the game' laid down by their ancestors under a totally different set of conditions, which they regard as orthodox principles and a departure from them as detestable heresy, and pour forth the vials of their incredulous wrath upon the brilliant general who outflanks and defeats them by perceiving the change in conditions and taking advantage of his perception. They absolutely decline to be instructed by history, and, because England has flourished by Free Trade under circumstances which certainly do not exist now, and which may never exist again, they resolutely turn their backs on the lessons which the study of a period previous to that of Free Trade might teach them.

It is simply not true that the supremacy of our mercantile marine was founded upon Free Trade; it was the result of the bitter century-long struggle between England and Holland for commercial supremacy—a struggle in which the former employed all her resources, whether of war or of carefully-conceived protective policy. Our navigation laws played their part with supreme success, and the Dutch attempted to meet them by Free Trade methods with complete failure. In spite of this patent object-lesson, we, engaged now in a similar struggle with other rivals, are blindly following the example set us by our former foes, in the misplaced faith that, by our adherence to 'orthodox' principles, we shall escape the fate which overtook them, whereas we shall most certainly share it.

But with our ocean-carrying supremacy our position as

* The fact that Mr. Morgan's combinations may be unsound in the sense of excessively watered capital, can make no difference in their ultimate effect. They have come to stay. They may have to be reconstructed; but in that case they will only be more formidable competitors than ever.

the banking centre of the world, which so largely depends on it, must also go.

I insist, then, that self-complacency and satisfaction with the present afford no safeguard for the future, and that care for our home markets is at least as important as care for our foreign trade.

CHAPTER VII

HOME TRADE

Examination of condition of home markets and production—Iron ore—Pig-iron—Coal—Wool—Meat—Milk—Cotton—Tea—Sugar—Tobacco—General conclusions as to production and consumption—Savings-banks deposits—Care required in drawing conclusions from these—Reluctance of English manufacturer to scrap machinery—Peculiar instance of English inability to compete to be found in Egyptian cotton—Necessity of strengthening home markets.

It will be interesting, therefore, to consider as briefly and as simply as possible how our home markets have been faring.

Iron, coal, wool, meat, and milk and its derivatives, may, I think, be taken as representative articles of home production. Other agricultural products apart from wool, meat, and milk, will be dealt with under some observations on agriculture which will be presented later on, and in order to avoid repetition, I do not mention them here.

Commencing, then, with iron, it will be found that the production of iron ore rose from an annual average of 17·4 millions of tons, or a little over half a ton per head of population, in 1876-1878,* to 20·5 millions in 1898-1900, or almost exactly half a ton per head; the production of pig-iron from an average of 6·51 millions of tons, or just under

* Tables having been already got out, for a different purpose, for wool, meat, and milk, commencing with this triennial period, I have adopted it as a starting-point for all the articles of produce mentioned.

one-fifth of a ton per head in 1876-1878, to 8·94 millions, or a little over one-fifth of a ton per head in 1897-1899* ; and the domestic consumption of pig-iron from 3·15 millions of tons, or a little under one-tenth of a ton per head, to 4·02 millions, or exactly one-tenth of a ton per head for the same two periods.†

At the same time the average value of pig-iron rose from £2 gs. 6d. per ton in 1876-1878 to £2 17s. per ton in 1897-1899. Thus, while the absolute quantities increased, the relative quantities remained almost stationary ; but the price having increased also by about 15 per cent., the power of absorption of the home market had certainly improved.

The average annual production of coal rose from 133·2 millions of tons in 1876-1878, or about 4 tons per head of population, to 218 millions in 1898-1900, or $5\frac{2}{5}$ tons per head. In the same two periods the average annual consumption rose from 117·8 tons, or a little over $3\frac{1}{2}$ tons per head, to 173·9 tons, or rather over $4\frac{1}{4}$ tons per head, while the average value rose from 7s. per ton to 8s. 2d. per ton. In respect of coal, then, our home market has done decidedly well.

The average annual production of wool fell from 144·5 millions of pounds in 1876-1878 to 120 millions in 1898-1900, or from a little under $4\frac{1}{3}$ lb. per head of population to a little under 3 lbs. per head ; and the annual average supply available for home consumption (which is taken to be the net imported supply added to the home supply) rose from about 354 millions of pounds, or slightly over $10\frac{1}{2}$ lb. per head, to 499 millions, or rather under $12\frac{1}{3}$ lbs. per head, an

* I have no returns in regard to the consumption of pig-iron for 1900, and I therefore adopt that period for production also.

† The figures for domestic consumption are approximate. In deducting the exports I have allowed 15 per cent. for wastage in the conversion of pig-iron into the grosser forms of manufacture, but I have been obliged to leave machinery out of account altogether, as no quantities are given in the returns. Moreover, I have no means of converting machinery into terms of pig-iron.

increase of about $17\frac{2}{3}$ per cent. per head. At the same time the average prices of raw wool fell from just under 1s. 6 $\frac{3}{4}$ d.* per lb. to just under 8d., or about 57 per cent.

It is not possible to take out an approximate average price for the aggregate of all the various kinds of woollen manufactures. An examination of the prices, however, shows a moderate fall in most lines. The inference is that in woollen textiles the home trade has done only fairly well, while the home-produce market has distinctly suffered.

The home production of meat† rose in quantity from an annual average of 1·3 million tons in 1876-1878 to 1·4 million tons in 1898-1900, which, however, means a fall from rather less than 3 $\frac{1}{3}$ quarters to rather less than 3 quarters per head of population in the two periods under observation. In the same periods the total supply (net imports added to home produce) for the United Kingdom rose from 1·7 million tons, or a little under 4 quarters per head, to 2·4 million tons, or 4 $\frac{1}{3}$ quarters per head, a rise, per head, of 20 per cent.

Prices‡ varied as follows:

In 1876-1878. In 1898-1900.

Beef, per stone of 8 lb.,	fell from	6s. 0d. to	4s. 7d., or	24 per cent.
Mutton „ „ „		6s. 11d. to	5s. 9d., or	17 „
Pork, per cwt. ...		52s. 7d. to	42s. 3d., or	20 „
Bacon „ ...		46s. 8d. to	37s. 11d., or	20 „
Hams „ ...		53s. 11d. to	42s. 7d., or	21 „

Although, then, the home supply rose in absolute figures, relatively it fell, and the whole absorption, proportionately to the increase of population and the fall of prices, remained stationary.

Lastly, the average annual home production of milk (less 15 per cent. for calf-rearing) rose from 1,209 million gallons

* Export prices.

† Beef and veal, mutton and lamb, pork, bacon, and hams.

‡ London Central Market for beef and mutton; import prices for pork, bacon, and hams.

in 1876-1878 to 1,321 million gallons in 1898-1900, which means, on the other hand, a fall from 36·14 gallons per head to 32·56 gallons, equal to 9 per cent. The average annual total supply* of milk rose from 1,908 millions of gallons to 2,880 millions, or from an average of 57 gallons to an average of 71 gallons per head—equal, per head, to a rise of 24·6 per cent.

I have been unable to obtain any exact data for the prices of dairy produce. It is stated in the final report of the Royal Commission on Agricultural Depression (1898, C. 8540, p. 51) that Sir Robert Giffen calculated the fall in the prices, between 1874 and 1891, of milk, butter, and cheese, as a whole, to have been 33 per cent.; other witnesses estimated it at between 25 and 33 per cent., and undoubtedly the prices have fallen since that time. To be on the safe side, it would be better to take the lower figure.

The home supply then increased absolutely, but fell relatively; the total supply increased absolutely, and relatively; but the relative rise, taking the most favourable view of the fall in prices, was compensated by the decreased value, and does not indicate any increase of profitable business in the home markets.

Before closing this section of the discussion, it would be well to consider what has happened, also, in regard to the consumption of some staple articles, none of which are produced in the United Kingdom, such as cotton, tea, sugar, and tobacco.

The net average annual imports of raw cotton into the United Kingdom in 1875-1879† amounted to 11 million cwts.,

* The net imports of butter, margarine, and cheese, have been converted into terms of milk. For the present I have no means of converting condensed milk into terms of fresh milk, and am, therefore, obliged to omit it. The net imports of condensed milk in 1900 were about 778,000 cwts. There are no means of comparison further back than 1888.

† There being no home production, the comparison with the com-

and in 1896-1900 to 14 million cwts., an increase of 27 per cent. ; per head of population the net average imports for the two periods respectively were $36\frac{3}{4}$ lbs. and $39\frac{1}{2}$ lbs., a rise of 6.7 per cent. The average annual price per cwt. fell from £3 in 1875-1879 to £2 2s. $9\frac{1}{2}$ d. in 1896-1900, or 28.7 per cent. The consumption of raw cotton, therefore, rose both absolutely and relatively, but the price fell so much that, if the fall in the prices of cotton manufactures be also taken into account, the increased consumption is far more than counterbalanced by the decreased price.

In order to save space I append a summary table (p. 87) in regard to tea, sugar (raw and refined), and tobacco, showing the average annual consumption per head, and the average prices in the same two five-yearly periods as those above taken.

In the matter of tea, it will be observed, while the average annual consumption per head rose, the average price fell in still larger proportion, so that the actual cost of the increased consumption was less.

Sugar is more difficult to follow on account of raw sugar refined and re-exported being included, in the returns, in the consumption of raw sugar per head. In 1896-1899 the average annual exports of refined sugar amounted to 771,000 cwt., against 1,044,000 cwt. in 1875-1879, a decrease of 273,000 cwt. This fact, if alone, would indicate that there was a still greater increase in the true consumption per head than that shown. But, on the other hand, the exports of biscuits and bread, of confectionery, jams, and preserved fruits, and of condensed milk, have very largely increased of late years, owing to the action of the Continental kartels and bounties, and must count now for a good deal more than they did in the first of the two periods. This would go far to counter-

modities previously dealt with does not oblige adherence to three-yearly averages, and I have extended the average, at about the same periods, to five years.

balance the decrease of exports of pure refined sugar, and I think, therefore, that although the figures of consumption per head shown in the table are certainly a good deal over the truth, they may be taken as an approximate representation of the increase of consumption of the later period over the earlier.

Allowing this to be so, and observing the movement of the sugar trade as a whole, it will be found that, whereas the total average annual consumption per head rose 36 per cent., the total fall in prices was from 50 to 54 per cent., the fall in price, thus, being more than an off-set to the rise in quantity.

Lastly, the consumption of tobacco shows an average annual increase of consumption of 0·38 lb., or 26·2 per cent., while the price fell from 7·79d. to 7·12d., or 8·6 per cent., the country thus buying more, and, in the aggregate, paying more for the increase.

It is now possible to pass in general review the course of home trade in the nine staple articles which have been discussed.

There has been an absolute rise in the production of iron ore and pig-iron, of coal (large), of meat (slight), and of milk, but a considerable fall in that of wool. Proportionately to the increase of population, there has been a relative rise in the production of coal (large), a fall in that of meat and milk, and a heavy fall in that of wool, while that of iron ore and pig-iron has remained almost stationary.

As to consumption, there has been a marked absolute rise in all cases without exception. Relatively, the rise has also been considerable in all cases except raw cotton and pig-iron, which latter remained almost stationary.

The country paid more, in the aggregate, for its increased consumption of pig-iron, coal, tobacco, and, apparently, woollen textiles, although the only absolute rise in values occurred in the cases of pig-iron and of coal. In every

FIVE YEARS.	TEA.		SUGAR.				TOBACCO.	
			Raw.		Refined.			
	Average Annual Consumption per head.	Average Price per lb. †.	Average Annual Consumption per head.	Average Price per lb. †.	Average Annual Consumption per head.	Average Price per lb. †.	Average Annual Consumption per head.	Average Price per lb. † (unmanufactured).
1875-1879	lb. 4.55	d. 15.82	lb. 52.5*†	d. 2.34§	lb. 9.61*	d. 3.22	lb. 1.45	d. 7.79
1896-1900.	5.90	9.9	38.35*†	1.17§	46.33*	1.47†	1.83	7.12
Increase or Decrease of Last Period upon First.	+ 1.35	5.92	- 14.15	- 1.17	+ 36.72	- 1.75	+ 0.38	- 0.67
Increase or Decrease per Cent.	+ 29.6	- 37.4	- 27.0	- 50.0	+ 382.1	- 54.3	+ 26.2	- 8.60

case, except the two last, there was a fall in prices—so heavy, indeed, in the case of raw wool, meat, milk, raw

* Being free of duty, the imports, less the re-exports, have been taken as the quantities for home consumption.

† Since May, 1874, when sugar was admitted duty free, the amount consumed per head of population includes the proportionate amount of raw sugar refined and re-exported.

‡ Import prices.

§ Cane and beet sugar were classed together in 1875-1879. In order to be on the safe side, I have taken the average price of cane sugar in 1896-1900.

|| Refined sugar and sugar-candy were classed together in 1875-1879. In order to be on the safe side, I have taken the average price of 'lumps and loaves' in 1896-1900.

cotton, tea, and sugar, that it must have been more than a set-off to the general increase of consumption.

Taking it as a whole, then, the production of the country—and if other agricultural produce were taken into account the truth of this observation would be much enhanced—has not kept pace with the increase of population. Home markets, on the other hand, of home and foreign produce taken together, have largely increased their business, there having been a good relative rise in consumption all round.

At the same time the average deposits per head in the Post Office and Trustee Savings Banks rose from £2 3s. 4d. (in 1875-1879) to £4 5s. 7d in 1896-1900, a fact which, taken in conjunction with that just stated, seems to prove that the wealth of the working classes has increased. It is a question, however, whether the conclusions as to the general prosperity and increased wealth of the country taken as a whole which are drawn therefrom are founded on correct reasoning.

Home trade, it is true, must have been good enough, reinforced by the effect of the action of the Trades Unions, to supply high wages. The purchasing power of money, as indicated by the fall in prices, has, of course, increased, and the value of wages therewith; but this does not necessarily mean that the trade of the country has been sufficiently profitable adequately to remunerate capital, or even to maintain it, still less to add to accumulation. Margins of profit may have been run down to a dangerously low level, as, indeed, from some indications, appears to be the case. There may, indeed, have been an actual decrease of fixed capital, and, in spite of the evidences to the contrary given above, the total aggregate wealth of the country may have diminished.

Some indication of this may be found in the comparative reluctance of the English manufacturer to 'scrap' machinery in order to replace it by the most modern appliances, and

his apparent preference to go on doing the best he can with what he has.

Those who know English employers well will be chary of bringing against them the somewhat popular accusation of being apathetic, behind the times, ignorantly conservative, and disregardful of modern improvements. There may be such, certainly, but they are the exceptions; as a class it may well be doubted whether for energy, resourcefulness, and sturdy courage under difficulties, their equals, or at any rate their superiors, could be found in any other country. They are perfectly alive to the necessity of 'keeping abreast with the march of the times'; dwindling profits, however, have deprived them, in many cases, of the means of doing so, and the uncertainty of their markets renders their business too speculative for them, as a rule, to dare to improve their methods by means of borrowed capital.

The present state of the cotton trade, and of the steel and iron trades, cannot but give rise to the most serious apprehensions, and should make the most convinced Free Traders pause to inquire whether their doctrine is, at all times and under all conditions, universally and eternally applicable as they appear to think.

A typical instance of the decreased power of English manufacturers to compete with their foreign rivals has recently come under my observation in Egypt. Egyptian cotton, as is well known, is of a peculiarly long staple, and specially fitted, indeed indispensable, for the manufacture of a certain class of high-class 'mixed' goods. A leading Egyptian merchant recently called my attention to a fact which had much struck him in connection with Egyptian export trade, viz., that whereas formerly practically the whole crop of Egyptian cotton was bought up by England, now a considerable part of it is exported to the United States, which have become the largest customer for it; another large part is exported to France, Switzerland, and Germany; and England, which

used to rule the market, no longer leads. 'The English,' said my informer, 'cannot afford to give the prices which the others do.'

Again, increase in savings banks deposits might indicate timidity in investment—a withdrawal, for instance, of the small investor from industrial undertakings owing to want of confidence—quite as much as an increase of actual means wherewith to invest.

I do not desire unduly to press these considerations; on the other hand, exaggerated conclusions as to increased national wealth would be probably ill-founded and therefore dangerous. Arguers on either side would do well to suspend their judgment until they have at their disposal the results of an exhaustive inquiry on the internal and external trade of the United Kingdom which is of the highest importance and necessity, and which it is most earnestly to be hoped will be instituted without any loss of time.

It is, however, not rash, on the strength of the figures above given, to infer that, on the whole, home trade shows very different characteristics to those which have attended our foreign trade, that the former is of far more value to the nation, and that we should by all possible means strengthen and extend our home markets.

CHAPTER VIII

HOME MARKETS AND THE EMPIRE

Comparison of our trade conditions with those of United States—Capacity of British Empire—Term 'home markets' should be applied to whole Empire and not confined to United Kingdom—Colonial trade can compensate us for diminishing foreign trade—To ensure this preferential treatment of colonies desirable—Ultimate goal to be attained Free Trade within the Empire—Free Trade objections thereto—Cheapness to the consumer—Lord Farrer on Free Trade—Free Trade within Empire not immediately possible—Political objections to preferential treatment stated by Lord Rosebery—These objections ill-founded—Fear of 'dislocation' of trade ill-founded—Examples of this to be seen in foreign trade of France—Of Germany—Of United States.

IN comparing our trade conditions with those of other countries, the opinion is often enunciated that the United States enjoy a position so unique, and so completely different to our own, that it is futile to compare the two at all. They have within the ring-fence of their own borders all kinds of climate, all kinds of produce, all sources of wealth. They are a complete world of themselves. They could, if they pleased, live well and grow wealthy by means of their own internal trade: their home markets would be sufficient for them.

No one, I think, would contest that assertion. If the same were made in regard to ourselves, there are very few who would not contest it. Yet, if we could shake off our insularity, and bring ourselves to realize that our borders do

not lie in the seas around these islands ; that, in fact, they surround half the world ; and that within them we also can find nearly everything, if not everything, necessary for the wants of man, or to minister to his luxuries, its truth would be manifest.

In extent of territory, variety of produce and of climate, and in potentiality of wealth within itself, the British Empire is fully the equal of the United States. The great difference between them lies in their internal means of communication, sea-ways in our case taking the place of railways in theirs.

But the fact that the Briton must move on the sea instead of on land like the American, places him at no disadvantage so long as the complete command of the seas is his. The paramount necessity of our retaining that command has become of late years, for various reasons, so indisputable, and the determination of the people of these islands to retain it so rooted, that I venture, for the sake of this argument, to assume that it will not be lost. The contrary hypothesis is not worth discussing, for with others in command of its sea-ways the British Empire could no more continue to exist, either in its present form or in that to which I earnestly hope it may come, than could any land-empire which had not control of its own roads and railways.

The point which I wish to make here is this : that if—and I believe that by unbiassed observers this cannot be contested—our foreign trade is gradually slipping away from us, we shall find much more than compensation by developing the advantages which, if we can refrain from regarding what have become doctrinaire theories as gospel truths, lie ready for us within our own Imperial confines.

Let us, in other words, apply the word 'home,' as it ought to be applied, to every part of the Empire, and so direct our constant energies and purpose that we may turn the change of spirit previously described to the best account ; that the component parts of the Empire may cease to treat

each other as foreign, or at any rate as semi-foreign, countries; and that 'home markets' may no longer be caged within the relatively narrow limits now understood—in our case two small islands in the northern seas—but may flourish in the world-wide atmosphere of that Empire 'upon which the sun never sets.'

It may be considered exaggerated optimism to state that colonial trade could at all compensate us for diminishing foreign markets, but even as matters stand at present that is so, as I believe the figures in the following tables (p. 94) will prove. We must avoid, too, the common error of regarding the rapidly growing trade of the colonies as a constant quantity; it is a swiftly increasing one.

In the four years here shown inter-Imperial trade evinced, relatively, rather a weak tendency so far as the United Kingdom was concerned; inter-colonial trade, relatively, presented a moderately firm appearance, and the trade with foreign countries firmer still. In all cases there was a rise of absolute figures, the increase of the total volume of trade* from £416,000,000 to £530,000,000 within the space of five years being highly gratifying.

Less pleasing is the fact that colonial imports from the United Kingdom fell, between 1896 and 1899, from 48 to 44 per cent. of the total import trade, and that inter-colonial imports rose only 1 per cent., while imports from foreign countries rose 3 per cent.

Still, the fact that inter-Imperial trade—I mean the interchange with the United Kingdom and among the colonies themselves, as a whole—amounted, even under existing conditions, to two-thirds of the total volume of trade, is satisfactory as far as it goes. The remaining third, amounting in volume, in 1899, to about £163,000,000, is a good

* For other figures in regard to Imperial and colonial trade see Chap. IV. It should be remembered that the figures here given relate to the principal colonies, and not to all British possessions.

SUMMARY OF ANALYSIS OF IMPORTS (INCLUDING BULLION AND SPECIE) INTO PRINCIPAL COLONIES (IN THOUSANDS OF POUNDS STERLING).

Year.	Total Imports.	Imports from the United Kingdom.		Total Imports exclusive of Imports from United Kingdom.		Inter-colonial Imports.		Imports from Foreign Countries.	
		Amount.	Percentage of Total.	Amount.	Percentage of Total.	Amount.	Percentage of Total.	Amount.	Percentage of Total.
1896	204,375	97,075	48	107,300	52	50,589	25	56,711	27
1897	212,466	101,065	47	111,401	53	51,873	25	59,528	28
1898	220,778	98,804	45	121,974	55	58,802	27	63,172	28
1899	242,851	107,170	44	135,681	56	62,262	26	73,419	30

SUMMARY OF ANALYSIS OF EXPORTS (INCLUDING BULLION AND SPECIE) FROM PRINCIPAL COLONIES (IN THOUSANDS OF POUNDS STERLING).

Year.	Total Exports.	Exports to the United Kingdom.		Total Exports exclusive of Exports to the United Kingdom.		Inter-colonial Exports.		Exports to Foreign Countries.	
		Amount.	Percentage of Total.	Amount.	Percentage of Total.	Amount.	Percentage of Total.	Amount.	Percentage of Total.
1896	212,102	91,188	43	120,914	57	50,298	24	70,616	33
1897	226,271	102,286	45	123,985	55	52,720	23	71,265	32
1898	257,570	112,586	43	144,984	57	59,159	23	85,285	34
1899	268,593	114,923	43	153,670	57	64,378	24	89,292	33

margin to commence on as compensation for possible loss of trade elsewhere. The fact that, in spite of all competition, it is still only a third is a strong indication that but a slight push in the right direction would place the greater part of it in British hands—the word ‘British’ implying, as it always ought to imply, not only Great Britain, but all the ‘Britains beyond the seas.’

As will be argued in some detail in a later portion of this work, the ‘slight push’ should take the form of inter-Imperial preferential customs duties,* the effect of which would be to guide the trade within the Empire into its natural channels, connecting the mother-country with all the colonies, and each colony with every other and with the mother-country.

The ultimate goal towards which our ‘constant energies and purpose’ should be directed must be far beyond this. That goal must be Free Trade within the Empire, while every component part thereof should be at liberty to establish such a Customs tariff upon goods imported into it from foreign countries as it may deem necessary to maintain, together with local internal taxation, revenue sufficient for its defence, maintenance, and good administration. Far from having a Protectionist tendency, such a measure would largely increase the area over which true Free Trade would extend.

I am aware that this idea is not in the least original.† It has been put forward several times, once by no less a person than the present Colonial Secretary.‡ It is generally spoken

* The subjects of inter-Imperial preferential duties, and of an Imperial Customs union, have been ably discussed by Mr. J. G. Colmer, C.M.G., and by Mr. R. S. Ashton, respectively, in their prize essays in the competition inaugurated by the *Statist* in 1896.

† Mr. Justice Byles advocated it over fifty years ago in ‘Sophisms of Free Trade.’

‡ It was adverted to again by him at the Colonial Conference last year (1902). Now he has called upon the mother-country to study and

of as the 'Zollverein' idea, though why we should not use the more appropriate and intelligible word 'Customs-union' I am sure I do not know.

On such occasions the artillery of so-called Free Trade has been hastily brought to bear upon it, and it has been as hastily dropped. A common reproach cast at it is that it is the 'dream of a visionary,' and there is nothing in the world that the practical Englishman dislikes so much as being supposed to be a visionary. Hard words, however, break no bones, and anything may be styled visionary which is difficult of realization, if we prefer to abandon it on account of the difficulty,—a want of courage and determination which we would not easily admit to form a leading element in our national character.

Germany has already solved a somewhat similar problem on her own account. It was, too, long ago solved by the United States. We still have weighing upon us the tradition of that former sentiment previously described—namely, that the United Kingdom must be regarded as one entity, each colony as another. It is distorted perspective. When we can shake the picture in our minds straight, and realize that it is the whole British Empire which is one entity, and each foreign country another, we shall perceive that not only is a British Customs-union of the kind I have defined the reverse of visionary, but that not to have it is unnatural. I confess that my intelligence is too dull to perceive why Free Trade among London, Edinburgh, and Dublin or, say, Texas, Oregon, and New York, should be less visionary than among, say, England, Australasia, and Canada, mutually.

A similar argument has always been used by the professors of Free Trade in regard to the United Kingdom and

decide the question of preferential treatment of the colonies,—as a step, it is to be hoped, to Imperial Free Trade.

foreign countries. The earlier Free Traders had hopes on which to build their argument, and when those hopes were not realized they had results—the effect of causes, then unobserved, as well as of Free Trade. Since their time we have seen the institution of bounties, kartels, and ‘mammoth trusts’—all constituting fresh means of fighting Free Trade, which, if it were universal, would be admirable. But the rosy views of humanity taken by the early Free Traders have proved to be as visionary as any views could well be, and exchange among nations, including (owing to the action of others) our own, becomes only more and more artificial.

Seeing this, the most advanced modern apostles of Free Trade have shifted their ground, and are trying to teach us that the aim and object of Free Trade are cheapness to the consumer.*

Anyone wishing to observe for himself how violent a departure this is from true Free Trade principles need only consult Lord Farrer's ‘Free Trade *versus* Fair Trade’ (third edition, p. 130). In that same able and valuable work we learn what Free Trade means and what is its moral. ‘It is,’ we read (p. 147), ‘merely the unshackling of powers which have an independent existence. . . . All it can do—and that all is not much—is to leave the powers of Nature and of man to produce whatever it is in them to produce, unchecked by human restrictions.’ The real moral of Free Trade is (p. 180) ‘that the free development of natural advantages, and the free exchange of natural products, are the true sources of commercial prosperity.’ Since foreign countries, besides resolutely denying us these conditions, have now

* See Mr. Harold Cox's oddly Protectionist letter to the *Times*, January 27, 1902. For the views of a classical Free Trader in opposition to this see also Monsieur Yves Guyot's letter to the same paper of February 8, 1902. For further discussion of the subject see later on, chapter xix.

succeeded, by means of their bounties and kartels, in causing us to protect them against ourselves, it is surely neither visionary or unreasonable that we should proceed to establish the principles of commercial prosperity within our own Empire. The Brussels Sugar Convention, although the stipulation in regard to British colonies is deplorable, is a welcome sign that we do not intend, in defiance of true economic principles, to adhere to the dogmas of a false Free Trade.

I am quite ready to admit that it would be unpractical to attempt to establish Free Trade within the British Empire immediately and in one step. The effect of long-standing errors cannot be instantaneously undone by the wave of a magician's wand. If that were possible, life might be too easy. But that is no reason why we should not turn from the wrong road to travel along the right one, and, by degrees, reach the goal where we should be. To do nothing because all cannot be done at once, is mere foolishness : *le mieux est l'ennemi du bien*.

A first, good, and practical step would be gained by leaving all products from the colonies to enter the United Kingdom free of duty,* while obtaining from them those preferential advantages for our products to the expressed desires to grant which we have, so far, turned a deaf ear ; and by levying on such foreign products as may be considered advisable entering the United Kingdom, Customs duties fixed according to a carefully prepared schedule, and sufficient to raise the revenue of which we stand in great need in order to effect a most necessary financial reform. They, on their part, might, as Canada has done already, place British goods upon a more favourable footing than foreign.

* Possibly a slight duty on some products might be found necessary for revenue purposes. In that case a higher duty should be levied on similar products from foreign countries.

Since I shall discuss later on what the effects of the scheme suggested might be, I will not pursue that discussion here ; but before leaving the subject I must for one moment advert to the principal political objection usually brought against inter-Imperial preferential duties.

This objection is stated as well, I imagine, and as temperately as it could be—and no less could be expected in the case of an orator of such wide learning and attainments—by Lord Rosebery in a speech delivered before the Manchester Chamber of Commerce on November 1, 1897.

Leaving aside other highly debatable points raised in that speech, we come (on pp. 16-19)* to this objection to an 'Imperial commercial league'—that we are already regarded with envy and suspicion by foreign nations, that 'a world-wide Empire, surrounded by a Customs rampart [would be], a challenge to every nation, a distinct defiance to the world,' and that it would excite the world's permanent hostility. With the greatest and most sincere respect to the eminent statesman who gave voice to that objection, I venture to say that none could well be weaker ; indeed, it may be doubted whether it is based on any admissible grounds at all.

In the first place, with the exception of the United Kingdom, the British Empire is already, in all parts, 'surrounded by a Customs rampart,' often very considerable. Soon even, as I hope to show later, we shall be bound to erect, in some degree, 'a Customs rampart' round the United Kingdom also, whether preferential or not, unless we are to leave our fiscal system on a permanently unsound and unscientific basis.

In the next place, it would be a fatal error to allow the internal policy of this Empire to be directed by the feeling of foreign nations. If that principle were to be admitted, what might have been the result of the South African War ?

* In the edition (pamphlet) printed for the Cobden Club, 1898.

At that time we seemed to be well hated by many foreign nations; it might almost be doubted whether we could have been hated more. That was a very regrettable fact; still, it was a fact, and we had to face it. But if we are not to arrange our national finances as we please because other nations might dislike us the more, then it is surely no exaggerated pessimism to believe that we are not destined to live long. No great nation can exist on the sufferance of others. Moreover, it must be patent to any impartial observer that our present system of free imports in no way releases us from the risk of commercial wars. The preservation of the 'open door' in distant parts of the world may at any moment form a *casus belli*. Indeed, it may well be argued that that particular risk would be lessened by the great development of trade which would take place if the system proposed were adopted, since the 'open door' in other regions would thereby become relatively less important.

We might, in respect of national independence, read a lesson from not remote utterances of the present German Imperial Chancellor:*

'The unfavourable criticism of foreign journals will not make the Federated Governments depart by one hair's breadth from the path prescribed by their rights and their interests. . . . They are masters in their own house, and will do what they consider necessary and advantageous in the interest of the economic development of Germany. . . . We desire to live on the best terms, political and commercial, with all foreign powers; but we are not going to be intimidated by foreign censure, by foreign attacks, and by foreign menaces.'

The proposed German tariff is naturally viewed with disfavour by the other nations principally interested; but I have nowhere seen that it, or the present tariffs of other

* Speech on the Tariff Bill reported in the *Times* of December 4, 1901.

nations, are regarded as 'a challenge to every nation, a distinct defiance to the world.' It may be safely surmised that if we arrange our own internal affairs without regard to others we may possibly not lessen their dislike, but we shall certainly increase their respect.

Nor need we fear that, by so doing, we shall sacrifice our trade with foreign countries, as 'orthodox' Free Traders profess to believe, or even 'dislocate' it to any appreciable extent.* The reasons on which this belief is based are so obscure as not to be forthcoming, for there is no reason in mere assertion. Reason, in this matter, must be based on some facts or some analogy, and neither facts nor analogy will bear the contention out; indeed, they emphatically contradict it.

Some show has been made of the supposed fact that the foreign trade of France has remained comparatively stagnant; but even as regards absolute figures this is not true. The export trade of France increased, as before shown, from an annual average of £136,786,000 in 1890-1894 to £144,289,000 in 1895-1899; while in 1900—a year which must certainly have been adversely affected by the South African War—it amounted to £164,348,000. Her total foreign trade amounted to £305,560,000 in 1890-1894, to £308,011,000 in 1895-1899, and in 1900 to £352,260,000. It must, moreover, be remembered that the population of France is stagnant—a very notable factor, frequently forgotten, in trade statistics, whether external or internal.

Keeping this in mind, it will be found that in 1890 the export trade of France amounted to £3 18s. 2d. per head, and the total trade to £8 10s. 7d. per head, and in 1899 to £4 6s. 2d. per head and £9 per head respectively; while for the United Kingdom the export trade amounted to £7 os. 7d. per head and the total trade to £18 5s. 1 d.

* *Vid. et infra.*, chapters xx. and xxi.

per head in 1890, and in 1899 respectively to £6 9s. 9d. and £18 7s. 8d. It is true that in 1900 the exports per head for the United Kingdom were £7 1s. 6d., and that the total foreign trade amounted to £19 15s. 9d.; but for reasons before stated, I do not believe these figures to be a reliable index of trade conditions. I give them, however, for what they are worth.

But why select France as an example? The exports of Germany rose from £3 7s. 2d. per head in 1890 to £3 15s. 5d. in 1899, and her total trade from £7 11s. 5d. to £8 13s. 9d. per head; and the United States exported per head £3 7s. 5d. in 1899 against £2 18s. 2d. in 1890, the total trade per head having slightly receded—namely, from £5 7s. 7d. to £5 5s. 10d., as is not, indeed, surprising, seeing the extraordinary internal development which took place in that country during the period named. The three foreign countries above mentioned all endure a system of severe Protection; yet their foreign export trade per head increased, as also their total foreign trade, with a slight exception in the case of the United States, while our export trade distinctly decreased, and the progress of our total foreign trade was insignificant.

The fact is that nations, whether Protectionist or not, seek foreign markets; that our markets, under the comparatively light Protective system in view, would still be their best and largest; and that nations have no more inclination to spite their faces by cutting off their noses than have individuals. The fear of dislocation of trade is a mere bogey.

I hope, then, that we may proceed to solve our national financial problems without gratuitously handicapping ourselves by unnecessary self-consciousness, or anxieties as to what effect our solutions may have upon the sentiments of foreign nations towards us.

Preferential duties are, I venture in conclusion to recall,

the first step towards a Customs-union. A Customs-union would be establishment over a large portion of the world of that true Free Trade in which there are few of us who do not believe in the original conditions conceived for it. The danger of the intermediate steps to be passed before we can attain it exists, as I hope to be able to show soon, chiefly in our imagination.

CHAPTER IX

PREFERENTIAL CUSTOMS DUTIES

General principles to be followed in scheme of indirect taxation—

Tendency of prices under such a system—Proportion of tax falling on inhabitants of United Kingdom—Examples: (1) When tax less than present profit—(2) When the two are equal—(3) When the tax more than the present profit—Tax should be kept within moderate limits—position of United Kingdom under Free Trade within the Empire—Effect upon emigration.

LET us, then, approach the consideration of the problem of indirect taxation in its relation to the general scheme of Imperial Finance, and inquire as briefly, yet as carefully as possible what general principles should be followed.

(a) Overlying them all should be held in view the main object advocated in a previous chapter—the establishment of a Customs-union, or Free Trade within the Empire. For many reasons, chiefly the widely differing fiscal arrangements of the various colonies, and the necessity, in many cases, that they should maintain a Customs tariff in order to provide sufficient means for their State purposes, it may be that this cannot be effected immediately, although, theoretically speaking, by the adoption of a system of Excise it would be possible for them to adopt Free Trade within the Empire immediately without any loss of revenue.

On the other hand, there are, as stated a little lower down, serious objections to Excise, and it would be found, probably, unadvisable to establish it. In this case the most practical

method of instituting preferential duties in the colonies would perhaps be to impose on all goods imported a general tariff, which should be scaled as low as possible, and to which might be given the name *octroi*. In addition to this, additional duties might then be imposed on goods imported from foreign countries—*i.e.*, countries not included in the British Empire—which should be called Customs duties.

Through the medium of such a preferential system means of gradual adjustment will be found to clear away, as Lord Jersey wrote, 'the snags and obstacles which may divert the stream of commerce into new regions,' and 'to help in keeping clear the channels between' the mother-country and the colonies until, finally, the stream circulates throughout the whole Imperial system in perfect freedom.

If it can be shown that this course is harmful to the Empire—that it could, for instance, sensibly diminish the prosperity of the United Kingdom, which would be to weaken the Empire at its heart, or of the colonies,* which would be to enfeeble its members—then it must be put from us like poison. In the contrary case, we should strive our utmost, with all wisdom and prudence, by adapting means to ends, to reach the ultimate object in view at the earliest possible moment.

(b) The taxes imposed should be so contrived as to be spread over as wide a basis as possible. It follows that they should be levied, for preference, on articles of general consumption.

(c) They should be imposed, in the first place, on articles imported from foreign countries which are also produced within the Empire.

(d) If imposed on raw materials, they must likewise be imposed on manufactures of those materials.

* Wherever the word colonies is used in this volume dependencies should also be understood, unless it is stated that that is not the intention.

(e) They should not be so high as to give rise to necessity for a compensating Excise. Excise is a bad form of indirect taxation, for, leaving the pure vexation of it aside, it is a hindrance to trade, and it is expensive to enforce.

(f) Neither should they be so high as to lend encouragement to smuggling; indeed, if the previous rule were complied with, this would virtually never be the case.

(g) For the same reason import taxes are more eligible on commodities of low value which can only be dealt in in bulk, than on articles of high value which, generally, can be dealt in in small quantities, and require but little space to conceal them. Many 'luxuries' would thus be relegated to a low place in the scale of eligibility. But this, if the commodities taxed are to be of general consumption, is no objection. The problem must be faced fairly and squarely. Either the Commonwealth is to take advantage of its whole strength, or it must deliberately discard a great portion of it, and leave the burden of its maintenance to press unduly on a part of the community. The latter course may be tempting from the narrow standpoint of party politics, but it is bad economy.

(h) The taxes should not, if possible, be so high as unduly to increase the cost of living, since this would ultimately prove to be a tax on profits and a drag upon trade.*

(i) On the other hand, the preferential duties should be sufficiently high to favour trade with the colonies. But there should be no intention of rendering the preference so great as to cause the virtual exclusion of foreign goods. This might diminish the invaluable incentive of competition, and would unduly raise prices; it would, moreover, probably defeat its own end. For, in order to escape the tax, foreign goods would find their way here through the

* The suggested reform of the income tax, which would act, at any rate to some extent, as a compensation to trade, must be borne in mind.

colonies, a contingency which could not be generally avoided by the intricate and vexatious system of certificates of origin.

The first tendency of prices under such a system might be to rise by the amount of the tax, but it would be short-lived. Under the stress of competition they would tend to fall to that fixed by the smallest foreign margin of profit, or very near it, when the portion of the tax borne by the people of this country would be represented by the amount by which the cost of production and distribution, the tax, and the adjusted profit added together—*i.e.*, the new price—exceeded the original price. The foreigner would bear the remainder of the tax—*i.e.*, the difference between his original and his adjusted profit. The profit of the colonial exporter and the home producer would be the new price less the cost of production and distribution, and their advantage would be represented by the difference between their profit and that retained by the foreigner.

That the population of the United Kingdom might not have to pay more than the amount of the tax imposed, it would be necessary that the portion of the tax paid by the foreigner should balance the increased profit to the colonial exporter and the home producer.

To make the action of the preferential duties advocated clearer, three examples will be given, taking the hypotheses—

- (1) That the tax imposed is less than the 'present profit';
- (2) That the two are equal;
- (3) That the tax is greater than the 'present profit.'

In order to avoid unnecessary complication, I assume that the cost of production of a given article, and of freight and other charges to convey it from the place of production to that of consumption, is the same whether produced in foreign countries, in the colonies, or in the United Kingdom. This would, probably, seldom be the case, but that does not alter, except in degree, the validity of the argument.

(1) Let us suppose, then, a commodity of which the present price of a taxable unit is 30s.; that the present profit, at that price, to the producer or manufacturer is 3s.; and that a duty is imposed on imports of it from foreign countries of 1s. At the outset the price might probably rise to 31s., or nearly so. But with the colonial produce coming in free, it would, by the effect of competition, soon fall, until probably the original price was reached.

In this case the people of the United Kingdom would escape the tax altogether.* The profit retained by the foreign exporter would be 2s. That of the colonial and home producer would be unchanged, and their advantage, as compared with the foreigner, would be 1s. The price paid to the foreigner being less, our exports to him would tend to decrease; his profits likewise being less, it is possible that his production would also tend to decrease, and again, too, our exports to him.†

On the other hand, the production at home and in the colonies would tend to increase, that of the latter probably in more rapid proportion owing to the preferential duties which it is assumed throughout that they would institute in our favour, and which must inevitably stimulate the exchange between them and the mother-country, and to the superior advantages which they possess for the production of many of the principal articles of consumption in the United Kingdom.

It appears, then, that in this case the 'home' markets of the Empire would—at any rate slightly—increase their activity without any indirect disadvantage to the home population.

(2) Next, let us suppose the tax to be equal to the 'present profit'—an import duty of 3s., therefore, to be imposed on

* The truth of this proposition has now been proved by the result of the imposition of the shilling corn-tax in 1902.

† It is possible that the volume of our imports from foreign countries might diminish without affecting that of our exports of *produce* (*vide infra*, p. 228).

the same commodity as before. The price would first rise to about 33s., but would again rapidly adjust itself to a lower level, say 31s.

The population of the United Kingdom would then pay 1s. more on the whole of the imports, foreign and colonial, and of the home produce, of the commodity in question. Supposing the foreigner to retain 1s. profit, the portion of the tax he would bear would be the difference between his original and adjusted profit, namely, 2s., or two-thirds of the tax on the imports drawn from him.

The profit of the colonial exporter and the home producer would be 4s., and their advantage, as compared with the foreigner, 3s. Their combined production would have to be twice that of the foreigner before any extra cost fell upon the population of the United Kingdom.

The effects upon trade would be the same as before in an intensified degree. The exports* of the United Kingdom to foreign countries should fall off more rapidly, and the activity and business of the extended home markets grow at a much greater rate.

There could be no cost to the population of the United Kingdom until two-thirds of its trade in the particular commodity had become inter-Imperial. It is not unreasonable to suppose that by that time prices, by other causes, would have fallen to a sufficient extent to obviate any cost, or at least almost the whole of it.

(3) Lastly, supposing the tax to be more than the 'present profit,' let us imagine the same article to be taxed 5s. The price, following the same course as before, might at first rise to nearly 35s., but would soon be at an adjusted level of, say, 32s. 6d., the population of the United Kingdom paying 2s. 6d. per unit more for the whole of the commodity consumed.

There would now be a much larger margin for competi-

* See footnote on preceding page.

tion, which would therefore be correspondingly keener, and we may conceive the foreign producer to be content with 6d. profit. The portion of the tax he would bear being the difference between his original profit (3s.) and his adjusted profit (6d.) would be 2s. 6d., or one-half of the tax. The colonial exporter and the home producer would make a profit represented by the difference between the cost of production, etc. (27s.), and the adjusted price (32s. 6d.), or 5s. 6d.

The tax would begin to cost the population of the United Kingdom more than it would bring to the Treasury as soon as the home and colonial produce together exceeded the imports from foreign countries.

In regard to trade, the action previously noticed would be still further reinforced; exports to foreign countries would fall with increased rapidity,* those to the colonies rise still more, and the markets of the United Kingdom (always supposing the commodity to be producible in these islands) be nearly proportionately more active. The increasing demand, due to increase of population, would take effect, at any rate chiefly, on the 'home' markets of the Empire, which would also be true in the other two cases supposed in proportionately less degree.

The relative variations of price shown above are, of course, purely arbitrary. It is impossible to predict exactly how, under any given set of circumstances, prices will adjust themselves. The probable general tendency is, however, I think, fairly portrayed. As the tax grew higher, the competition incurred by the foreign article would become more severe, and it would tend to disappear from the trade. That it should do so entirely is not, as before indicated, the object to be aimed at, and the taxes imposed must, therefore, be kept within moderate limits.

What is desired is to raise revenue in such a manner as to succeed in saving the population of our Empire, in the

* See footnote on p. 108.

words of Mr. J. Stuart Mill, from 'being a loser by the revenue duties imposed by other countries on its commodities by imposing corresponding duties on theirs,' while causing it to gain by the increased Imperial 'home' trade ensuing. But we must be careful that 'those duties be not so high as to exceed all that remains of advantage of the trade, and put an end to importation altogether.' I hope to have made it clear that, provided we can produce within our Imperial borders all the commodities which we import from other countries at an approximately equal cost, that is not a very difficult task.

The lower the duties levied by the colonies on our products, the easier would that task become both for them and for us. The greater the exchange between us, the greater their prosperity and ours, and the more easy for them to devise other methods of taxation to compensate them for the loss of Customs duties on Imperial products which they import, until at last Free Trade within the Empire becomes a fact.

And this would be Free Trade under conditions now lost in international trade, as I have attempted to show, but true still if they could be resuscitated. Great Britain would, I imagine, become the manufacturing centre of an Empire the best energies of the other members of which would necessarily be expended—at any rate for much time to come—in providing the food and raw materials for its consumption. If at any time it were found that some manufacture could be produced better in a colony than in the mother-country, the latter must cease to produce it, but there would be no loss of productive power within the Empire as a whole. Indeed, emigration would be thereby stimulated, a consequence to be regretted by none, since, according to the most recent authorities, a considerable proportion of our population exists in a condition verging on pauperism. It would be stimulated, too, in the right direction, instead, as is

lamentably the case at present, in the wrong direction of foreign countries.

In this connection it is instructive to observe that, during the fifteen years 1887-1901, 1,968,795 emigrants of British and Irish origin left our shores for the United States, 320,400 for British North America, 257,814 for Australia and New Zealand, and 224,909 for the Cape and Natal—a total of 803,123 for the great self-governing colonies, or only a little more than two-fifths of the numbers that went to the United States.

The number of immigrants of British and Irish origin during the same period was 1,508,604; the countries whence they came are not enumerated in the returns, but the mistake would probably be on the right side if it were assumed that they returned from the above countries in the same proportions as they went out.

In that case, of a net number of emigrants amounting to 1,263,000 souls, 897,500 will have gone to the United States against 365,500 to British North America and Australasia. It cannot but fill us with regret to see such a large majority of our emigrants, all of our own flesh and blood, many of them workers of the best sort, leaving us for ever to join our mightiest rivals, while so large a proportion of our own splendid estates is left to lie fallow.

It is worth noting that during the same fifteen years 769,982 foreign immigrants entered the United Kingdom, and, although the returns do not indicate how many of these actually stayed, it would not be rash to assume both that a considerable number of them did so, seeing what is known of the cheap labour-market in the poorer quarters of the Metropolis, and that a large proportion of those who remain forms a scarcely desirable addition to our population. It seems to predicate a peculiar condition of mind on our part that we should see with unconcern hundreds of thousands of useful workers forsake us—take themselves out of the British

Empire, in which working hands are so much needed—probably for ever, and the void which they leave filled up to a large extent by undesirables.

One certain result of assisting trade to direct itself into inter-Imperial channels would be to direct the stream of emigration into inter-Imperial channels also; it is improbable that anyone will contest that this is distinct advantage to be placed to the credit of the policy advocated.

CHAPTER X

HOME AGRICULTURE

What articles of foreign import should be taxed?—Tax on food responds best to conditions enumerated—Agricultural possibilities within the Empire—Effect of Free Trade on agriculture in the United Kingdom—Mr. Rider Haggard thereon—Apathy of public men.

WHAT foreign articles, then, should be taxed in the first place in order to carry that policy into effect? The first choice must necessarily fall upon one, or both, of the two chief classes of colonial products—namely, articles of food and raw materials. If the conditions above laid down be considered, it is clear that it is articles of food, as being absolutely of general consumption, which best respond to them. Moreover, although this is often strangely forgotten, a tax on food (indeed, on all imports) is bound to be borne more by a large establishment than by a small one—that is, more by the rich than by the poor—although, doubtless, not in proportion. But the direct taxation still left, which would not bear on the poor at all, should render the pressure even.

To observe whether taxes upon food-stuffs would actively promote the object in view, we must inquire for a moment into the possibilities of the expansion of agriculture within the Empire.

The effect of the changes of condition upon this industry in the United Kingdom, the loss of the 'protection of distance'—the irresistible growth of competition, owing to

almost incomparably better means of communication and cheaper freights, and enormously greater areas both of cultivated land and of pasture land in various parts of the world—is so notorious that it needs little insistence. Nor do I think much is to be gained by proving that the predictions of early Free Traders in regard to British agriculture have been so completely falsified. They were plain men, not prophets; that is the useful lesson to be learnt from a study of those predictions. But we can take it to heart and bear it in mind without useless recrimination and acrimonious comment.

Those who have any doubts as to the pass to which agriculture has been brought may well be referred to the final report (published in 1898) of the Royal Commission on Agricultural Depression appointed in 1893. It would be hopeless to attempt here the shortest summary of those most interesting but most depressing volumes. A few extracts taken here and there, however, may be useful as an illustration. Thus, ‘rentals [in Essex] have been greatly reduced, arrears blotted out, remissions given, large sums expended on buildings, and in spite of it all tenants are still unable to pay in full.’ In Suffolk: ‘Taking the farmer of Suffolk as a whole, there was not a more capable, frugal, industrious, worthy class of man, and the bankruptcy of a farmer in all my early experience was a thing quite unknown. Now that same class of men have seen the great bulk of their savings, or their fathers’ savings, swept away.’ ‘The reductions of rent in Suffolk have averaged about 50 per cent.’ ‘The condition of farmers in Norfolk is verging on absolute ruin and wholesale bankruptcy.’ In Cambridgeshire the effects of the depression upon the farmer were stated to have been absolutely disastrous. In Lincolnshire rentals had been reduced, freehold values had largely decreased, and land was a drug in the market.

From all parts of Great Britain came much the same

dismal story, although the depression was less severely felt in Wales, owing to its being a pastoral country advantageously endowed with many large towns, watering-places, and industrial districts. Generally speaking, the grazing lands had done, on the whole, a little, but only a little, better.

The decrease of the capital value of agricultural land between 1875 and 1895 in Great Britain was estimated at £834,834,000. Adopting the same method of calculation, that loss had increased in 1900 to £893,346,000, or over 53½ per cent., since 1875. Again, in 1878 Sir James Caird estimated the farming working capital in the country to be £400,000,000; while Mr. R. Henry Rew estimated it in 1895 to be £319,000,000, an additional capital loss of £81,000,000.

Sir James Caird, in his evidence before the Royal Commission on the Depression of Trade and Industry (1886) entered upon a calculation acknowledged by Lord Farrer ('Free Trade *versus* Fair Trade,' p. 183) to be 'the most recent and most trustworthy estimate of agricultural losses,' by which he estimated that between 1876 and 1886 the landlords had lost in 'spendable income' 30 per cent., the tenants 60 per cent., and the labourers 10 per cent., on a rental of £65,000,000. The total loss of spendable income he calculated to be £42,800,000, thus apportioned: the landlords and tenants £20,000,000 per annum each, the labouring class £2,800,000. Since 1886 the annual rental of lands in the United Kingdom—on the basis adopted by Sir J. Caird—had fallen from £63,269,000 to £52,636,000 in 1900-1901, or 16·71 per cent.

I have no means of attempting a fresh calculation on the lines of Sir James Caird, but it is probably well within the mark to put the further loss of spendable income at an additional 10 per cent., which would bring it out now, as compared with 1876, at, in round figures, £49,000,000.

Mr. Turnbull, in an interesting and careful paper published in 'The Transactions of the Highland and Agricultural Society of Scotland,' vol. x., estimates the average gross farm revenue from live-stock and field produce in the United Kingdom (exclusive of fruit, hops, flax, and vegetables other than potatoes) for the five years June 1882-1887, to have been £193,892,000; for the five years June 1887-1892, £175,802,000; and for the five years June 1892-1897, £161,622,000. These figures show a decrease of annual gross revenue in the last quinquennial period as compared with the first of £32,270,000, and an annual average decrease during the whole period of £17,120,000.

I have already given figures showing how large a fall there has been in the home production of wool, and how far that of milk and meat has fallen proportionally behind the rate of increase of the population.

Corn crops, as might be gathered from what has been stated above, have not done any better. The average acreage of wheat in the United Kingdom fell from 2,553,858 acres in 1884-1886 to 2,035,571 acres in 1898-1900; of barley, from 2,408,650 acres to 2,126,014 acres; of oats, from 4,326,140 acres to 4,103,160 acres.* The average annual production of the three crops was respectively: wheat, 9,325,000 quarters in 1884-1886 and 7,978,000 quarters in 1898-1900; barley, 10,159,000 quarters and 9,070,000 quarters; oats, 20,419,000 quarters and 20,948,000 quarters, this crop alone showing a slightly larger yield, which has since been more than lost. Meanwhile, imports rose and prices fell.

The following table is given to show the percentage of net imports to total supply, and the home production,

* In 1900 the average of wheat was over a million acres less than the triennial average; that of barley and oats was slightly above it. In 1901 there was a further falling off in the acreage of corn crops of 230,710 acres.

quantities imported, and total consumption (net imports added to home production) per head of population :

	Years.	Percentage of Net Imports to Total Supply.	Average Prices per Quarter.	Home Production per Head of Population.	Net Imports per Head of Population.	Total Consumption per Head of Population.
Wheat	1884-1886	63·96	s. d. 33 2	qrs. 0·26	qrs. 0·46	qrs. 0·72
	1898-1900	73·76	28 10	0·20	0·55	0·75
Barley	1884-1886	27·79	29 1	0·28	0·11	0·39
	1898-1900	37·60	25 11	0·22	0·14	0·36
Oats	1884-1886	18·76	19 11	0·56	0·13	0·69
	1898-1900	22·64	17 8	0·52	0·15	0·67

It is a curious fact, worthy of attention, that the consumption of both barley and oats per head has decreased in spite of the concurrent reduction in prices ; but the chief lesson to be drawn from these figures is that our home production falls hopelessly, while our dependence on countries beyond the seas for our food supplies grows always.

As bearing upon these facts and figures, it will not be out of place to give a few extracts from Mr. Rider Haggard's admirable work, 'Back to the Land,' which was the result of a most painstaking investigation of the state of British agriculture undertaken on behalf of the *Daily Express*, in the pages of which it first appeared as a series of articles during the year 1901. In the summary of that investigation Mr. Haggard writes as follows :

'The general impression left upon my mind at this point in my extensive wanderings is that English agriculture is

fighting against the mills of God. Many circumstances combine to threaten it with ruin, although it is not actually ruined. Of these the chief is unchecked foreign competition. . . . Should this competition become still more acute, it will, indeed, no longer be possible to raise corn and meat at a profit in England.'

The second great danger that threatens English agriculture he states to be 'lack of labour, with the high price and indifferent quality of what remains. . . . The real peril both to agriculture and, what is more important, to the country at large, lies, however, in the fact that the supply [of labour] is being cut at its source. The results of my inquiries on this point are even worse than I feared. Everywhere the young men and women are leaving the villages where they were born and flocking into the towns.'

He goes on to point out that this means a progressive deterioration of the race, which in the end may mean its ruin, and he implores British statesmen to 'give some real and earnest attention to the state of the English land and the agricultural interests of the country, and to the rapid and increasing shrinkage of the rural population,' as things which should not be 'thrust aside as of no account.'

They should not, indeed! But beyond a few leading articles and sympathetic notices in the press, the facts—in the main well known to many for long past—to which Mr. Haggard entreated such earnest attention have been as callously ignored since he wrote as before.

I often wonder whether men actually realize in England what is going on before their eyes; whether they understand what is truly meant by the vast losses above figured forth, upwards of £900,000,000 of capital, and nearly £50,000,000 in spendable income; whether they would contemplate with the same serenity losses of such magnitude in any other branches of British productive industry, losses—and worse still—which will certainly come upon

them at no very distant time if the present happy-go-lucky system is continued ; and whether they do or do not care that those splendid land-dwelling classes, on the worth and valour of whom the greatness of our present England is founded, is gradually disappearing to be replaced by a more puny race of city-dwellers.

Apparently neither governors nor governed care one whit for these things ; either they ignore, or they have not the courage to face, them. But circumstances will not wait on the ignorance or cowardice of men ; nor will it at all avail us, while our rural population continues to diminish by migration to the towns, to sit looking helplessly on, endeavouring to make believe that nothing matters provided that trade generally is more or less good.

CHAPTER XI

IMPERIAL AGRICULTURE

The secretary of the Cobden Club on possibility of home food supplies—Erroneous as applied to the Empire—Mr. R. F. Crawford on our dependence on foreign food supplies—Possibilities of food supply from Canada—From Australasia—from South Africa—from India—Empire able to feed itself from within as well as from without.

WHAT is the remedy? The Secretary of the Cobden Club stated not long ago in his airy style that 'even if we ploughed up every yard of park and pleasure-ground, even if we pulled down all our factories to make room for our fields, we still could not get enough food to give us all one good meal a day. The only way to make this country independent of foreign food is to cut down the population at least by half, and to abandon our position as a manufacturing nation' (*Commercial Intelligence*, June 1, 1901).

There is a good deal of picturesque exaggeration in this, no one contemplating the possibility of this country producing sufficient food for the population within its borders. Following, however, on the line of thought suggested, and comprising the whole Empire in the term 'this country,' instead of our small northern islands, we shall see that Mr. Cox's proposition falls to the ground.

In an exceedingly interesting paper by Mr. R. F. Crawford, published in the *Journal of the Royal Statistical Society* (vol. lxii., 1899), a calculation is made by which our

dependence upon external sources for our supplies of corn and other feeding-stuffs, of meat, excluding pork, and of milk, is converted into terms of acres.

Showing in detail how his results are arrived at, the author demonstrates that our imports of those foodstuffs are represented, at a very moderate estimate, by 23,000,000 acres, raised in a more recent calculation to 25,000,000 acres. In the United Kingdom the total acreage under crops and grass in 1900 was 47.76 million acres, the total supply necessary for the inhabitants of the United Kingdom being thus represented by nearly 73,000,000 acres, or 1.77 acres per head.

Now, according to the agricultural returns for 1902, we imported in 1881-1885 an annual average of 245,000 tons of dead meat from foreign countries, and 28,000 tons from the colonies, against an annual average of 600,000 tons and 179,000 tons respectively in 1896-1900, while we are bidden, in the Board of Trade returns for 1902, to remember that 'a considerable amount of Canadian produce finds its way to the United Kingdom via the ports of the United States in winter.'

Of wheat and flour, expressed in its equivalent of grain, we imported in 1896-1900 an annual average of 4,137,000 tons from foreign countries, and 661,400 tons from the colonies.

At the Census of 1891 there were 2,700,000 acres under wheat in Canada, of which 2,200,000, which had increased in 1902 to 2,900,000 acres, yielding an annual average of about 26,000,000 cwts. of grain, are situated in Ontario and Manitoba. In the latter province alone it is estimated that there are 4,000,000 acres of some of the best land for wheat-growing in the world, while Sir Wilfrid Laurier reminded us, in his farewell speech last year (1902), that 50,000,000 acres lay awaiting cultivation and development in the Dominion.

Clearly there is no optimism in stating that from Canada alone immensely greater supplies of food could be drawn at reasonable prices than we draw at present—to the extent, indeed, of the whole of our present demand so far as wheat is concerned.

From the Commonwealth of Australia and New Zealand we now take 5 per cent. of the wheat, 14 per cent. of the meat, and 10 per cent. of the milk which we annually import. In the past, Australasia has been chiefly pastoral, but a change is taking place on the mainland in the direction of the cultivation of wheat, and New Zealand is becoming more and more diversified in her system of agriculture.

Two-thirds of the present acreage (6,600,000 acres) lie in Victoria and South Australia, 1,700,000 acres in New South Wales, and 711,000 acres in New Zealand, in which Colony, however, 11,000,000 acres of artificial grasses are grown for feeding fat sheep for the frozen mutton trade. New South Wales, with 40,000,000 sheep, comparatively neglects the export trade in mutton, and keeps her sheep mainly for their fleeces, the carcasses being generally converted into tallow. It is, however, affirmed by official experts that, with improved prices and proper cold storage accommodation, the exports of mutton from Sydney would be largely increased by the substitution of cross-breds for merinos.

‘As regards wheat, the exports from Australasian ports consist almost exclusively of the surplus from the fields of Victoria, South Australia, and New Zealand.

‘In Victoria wheat is grown on about 2,000,000 acres, but it has been estimated that over 40,000,000 acres of land in the Colony could be put under this crop, and that satisfactory yields could be obtained in four out of five years, even on the arid soils of the Mallee. The available area of land suitable for wheat in New South Wales is officially stated at between 20,000,000 and 25,000,000 acres. In Queensland, too, it is said by the authorities, there are

millions of acres of fertile soil on the Darling Downs profitlessly employed in supporting less than one sheep to the acre, pending a remunerative demand for wheat.

‘Within the boundaries of the three mainland colonies mentioned, and excluding the large areas awaiting cultivation in South Australia and Western Australia, there is, according to official estimates, available more than sufficient land, even at the low average yield of eight bushels per acre, to meet our present demand for wheat and other grains.’*

South Africa cannot, for the present, be taken into account, although if a proper system of irrigation be carried out, as appears to be quite feasible,† vast tracts of territory will be brought under cultivation there also.

India, too, is an uncertain factor, owing to the periodical recurrence of famine years. On the other hand, in good years we import considerable quantities of Indian wheat (in 1898, 477,000 tons, and further back, in each of the years 1891 and 1892, about a third more than that); it must further be remembered that a large portion of the cultivated land (of which the total area in the year 1898-1899 was 196,500,000 acres, or, allowing for area cropped more than once, 223,650,000, of which 182,000,000 acres are devoted to the production of food-grains) will produce more than one crop in twelve months, and that there exists a culturable waste area, other than fallow, of 106,000,000 acres. The extension both of double cropping and of the area of cultivated land must depend, to a great extent, on the facilities for artificial irrigation.

According to a statement issued in 1893 by the Revenue and Agricultural Department, good cultivation, assisted by irrigation and manure, may in India, even on land originally poor in quality, secure a return of thirty bushels of grain per acre, whereas the present average yield is about ten

* See Preface.

† See Sir William Willcocks's report.

bushels. Thus as canal irrigation advances an expansion of the area of cultivated land and a greater return per acre may be expected.

On the other hand, it is improbable that there will be appreciably larger exports of foodstuffs unless prices attain a somewhat higher level, and costs of transport are reduced. Under such conditions the possibilities of supply from India are very considerable, and must always be borne in mind.

Even, however, if we leave India aside, it is evident, in the light of the facts and figures given, that the agricultural prospects in the great self-governing colonies are immense. They would thus concentrate their energies more and more upon producing those commodities which they would find to be the most profitable, and it may be foreseen without exaggerated optimism that they would rapidly adopt Free Trade with the mother-country. Within the British Empire, then—and I insist again upon the necessity of considering the British Empire as a whole, and not the United Kingdom as a separate entity—agriculture would flourish as certainly, and under as favourable conditions, as in any part of the world.

It should provide an almost unlimited demand for workers; we have a large able-bodied surplus population—a constant stream of emigrants leaves our shores for the United States. It would seem to be the best kind of trade that we should direct our potential labour to where so much potential wealth lies undeveloped, and needing it, within our own estates. But apparently, unless our estates can be developed without any effort on our part, they must remain idle.

In any case, it will not be contested, seeing the vast territories which remain untouched but available, that the Empire could feed itself quite as well from within as from without, if it distributed its energies upon its own territories.

CHAPTER XII

OUR FOOD SUPPLY IN WAR AND PEACE

Food supply in time of war—Precariousness of our present situation—Necessity of our maintaining naval supremacy—Danger even if it be maintained—Possibility of other hostile measures than actual acts of war—Debates in House of Commons—Two capital errors in deduction usually drawn from failure of 'Continental System' of Napoleon I.—In what respects our position better if food supplies drawn from colonies—Other unfavourable contingencies not dependent upon war—Example to be found in decreasing supply of raw cotton—British Cotton-growing Association—*St. James's Gazette* on Lancashire census returns.

THE question of our food supply in time of war has so direct a bearing upon this matter, and is one which clearly might become at any moment of such vital importance to us, that I will venture here to make a few brief observations in regard to it.

The worst moment, so far as this is concerned, for the calamity of war to descend upon us would be just before the harvest in any given year is gathered in. The previous year's harvest would then have been nearly, if not quite consumed, and we should depend chiefly on the store of imported supplies in the granaries at our ports and principal towns, and on those on freight ships which would be within a day or two's voyage of our shores, and which it is improbable that hostile cruisers would be able to intercept. The most reliable estimates that I have seen place these supplies at a quantity sufficient to feed the population of

the United Kingdom for the space of from six to eight weeks: let us assume the longer period.

It is evident, to begin with, that we should be fighting, comparatively, with our hands tied. Some of our possible enemies are quite self-supporting, others nearly so; none of them even approach us in the inferiority of position entailed by drawing 75 per cent. of our wheat, for instance, from over the seas, of which more than one-half comes from a non-British country—cornstuffs imported from British States being, in fact, only about one-eighth of the quantity imported from foreign countries, while of the immense amounts of imported meat (nearly sixteen million cwts.) the latter supply us with more than two-thirds.

It is not necessary to insist upon the fact that such a situation is precarious in the extreme; it is well known, and has been carefully studied, by at least one of our possible enemies, who does not look upon that British optimism arising from the conviction that we must, somehow or other, muddle through, as bound to be always well-founded. What is generally regarded as a sufficient answer to any expression of fear in this country is that our navy must hold the supremacy of the seas, and that if we are not supreme at sea we must be blotted out in any case; if that point be not admitted, it is advanced, further discussion is useless. It is perfectly true that our naval supremacy must be assumed, but there are other factors to be taken into account.

In the first place, how long would it take to impose that supremacy? It can hardly be expected that the country, or combination of countries, with which we are at war, would manifest their appreciation of our naval supremacy to such an extent that they would withdraw all their battle-ships and cruisers immediately into port and dismantle them. We should be obliged to seek the opportunity of crushing their fleets, or effectually to prevent them, by

blockade, from issuing from their ports. Further, the task would be laid on us of successfully pursuing, and either destroying or capturing, the cruisers of all kinds which would be sent out to harass our ocean commerce. What length of time this would take must, of course, depend upon the enemy with whom we should be dealing.

But in the consideration of a contingency of this kind, no chain being stronger than its weakest link, the worst possibilities should be taken into account, and not the best, and, should we have to contend with such a combination as, say, that of France and Russia, we should have to pass through a very serious conflict before its power on the sea could be annihilated. I have never seen any estimate of the length of time which such a naval campaign might require, but its conclusion could scarcely be hoped for in less than a couple of months. On the best hypothesis, prices of imported foodstuffs would rise enormously.

Moreover, as has been more than once pointed out, there are other means of besieging this country by starvation than the mere measurement of naval power; the stoppage of the supplies on which we absolutely depend for subsistence could be achieved in very large measure by purely commercial operations—the buying up of visible supplies and purchase of ‘futures.’ It is quite conceivable that a weapon of this kind might be employed without any declaration of war, but merely as anticipatory to it—a preparatory undermining of our strength before the final violent assault was made. Such a possibility, owing to the generally invincible optimism prevailing among Englishmen as to possible dangers in times of crisis, is usually pooh-poohed out of court as unworthy of serious consideration; unfortunately, contempt of a real danger in no way diminishes it. The effect upon prices of wheat in this country of a private attempt to make a corner in that necessary, such as that

of Mr. Leiter, should have been, despite its failure, a striking object-lesson enough.

These, and other considerations, have been pressed upon the House of Commons more than once, only to give rise to inconclusive debates, such as those which took place in April, 1897, or January, 1902.*

In the former, one very distinguished statesman gravely remarked that there were large stores of lentils and peas in the country, and reminded the House that besieged Paris had drawn considerable sustenance from rats. The present Prime Minister, although much less dogmatic in tone, observed that if other countries bought 'futures' so could we, which is true enough, although the effect upon prices—which is the main consideration—would be, if anything, enhanced. He further pointed out that if foodstuffs were declared contraband of war, and the United States were not in hostile relations with us, that country, on finding its principal export trade thus lost, would join hands with us, and that we two would be irresistible as against even the whole world.

If the assumption were conclusive, the corollary, in the end, would doubtless prove to be true. But, however dear may be our hopes, no wise statesman should regard that 'if' as a certainty; moreover, even if it were, the proof of the corollary would still submit this country to terrible straits before it was established.

The second debate—that of January, 1902—was quite as inconclusive, and was really remarkable for nothing more than a Government reply from the mouth of Mr. G. Balfour consisting of a kind of philosophical disquisition on the relation between insurance-rates and prices, which was purely imaginary. In both there was generally evinced a feeling that, sooner than touch that unclean thing, Protection,

* Since this was written a Royal Commission has been appointed to inquire into the whole question.

whether directly or indirectly, it would be preferable to run all risks; also in both a disregard of the teachings of history.

It is frequently imagined that we may draw encouragement from these, the 'Continental System' of Napoleon I. being pointed to as a proof that, even when a prohibition of all trade with these islands was promulgated and enforced in as complete a manner as ever, under any circumstances, would be possible, wheat in sufficient quantities, at any rate to preserve the people from starvation, still found its way in.

Such a conclusion, however, is erroneous in two capital respects.

In the first place the prohibition was one-sided, and was addressed only to the annihilation of British export trade. Napoleon imagined that by this means he would ruin us, and that the ruin would only be hastened if imports into the United Kingdom were left virtually unimpeded. Apart from the fact that he himself connived at the infraction of his own system by the sale of licenses to import forbidden goods, he not only never attempted to reduce us by starvation, but actually, in the time of our direst need, favoured exports of corn to us, always with the idea of making us a bankrupt nation.

'In truth,' as Mr. J. H. Rose well observes, 'the urgency of the problem of our national food-supply in the time of a great war can only be fully understood by those who have studied the Napoleonic era. England then grew nearly enough corn for her needs; her fleets swept the seas, and Napoleon's economic hobby left her foreign food-supply unhampered even at the severest crisis. Yet, even so, the price of the quartern loaf rose to more than fifteenpence, and we were brought to the verge of civil war. A comparison of that time with the conditions that now prevail must yield food for reflection to all but case-hardened optimists.'*

It is in the neglect of the change of conditions that lies

* See 'The Life of Napoleon I.,' by J. H. Rose, vol. ii., chap. xxxi.

the second error to which attention should be drawn. The population then numbered not more than eighteen millions, now it is nearly forty-two millions; then the country was nearly self-supporting in the matter of food, now it draws four-fifths of it from other countries, chiefly non-British, and should there be a serious interference with our import trade, there is but a scanty reserve to fall back upon, and no internal means of replenishing supplies.

Then, again, the people were accustomed to a scale of living which now would be considered absolutely insufficient, and would produce furious discontent. I hope I may not be supposed to begrudge the working classes their increased share of good things. I am merely stating a fact.

It must further be conceded that the shifting of political power which has taken place since that time has placed the securing of votes in the forefront of political exigencies, and on that account has caused the word 'self-denial' virtually to disappear from our political vocabulary. 'Give me your vote, and you shall be denied nothing' is the one genuine cry of both the great parties of the State. In times of peace and plenty—and in regard to the latter the South African War had no injurious effect whatever—this may be of no consequence; but should a time of war and scarcity come upon us we have yet to see whether self-denial has disappeared from the character of the people as well as from their parlance.

If not—and this is one of the most important changes of all which render an analogy from that time to this irrational—those who have the power, namely, 'the people,' will dictate surrender with a force which it will be impossible to resist. The organized political power of the country is in their hands, and now, as not then, their so-called rulers will be obliged to execute whatever they may decide. To say that the people then endured hardship, scarcity, and want with admirable fortitude (which, however, nearly

reached the length of its tether even at that time), is no answer; we have here a great and terrible unknown.

‘Convinced Free Traders’ supply us with a discouraging answer enough, almost threatening us with bread-riots if by imposing a very moderate tax the price of bread were to rise by a fraction of a penny per loaf. What, then, would happen if it were to rise from $4\frac{1}{2}$ d., to the price of 1810, or 1s. 3d. a loaf? This is not a remote possibility, but a near probability in case of war with a great naval Power, and it is not pleasant to contemplate what the answer might be.

Apart from the result which a tax on imported food-stuffs produced outside the Empire might have, at any rate temporarily, on the rehabilitation of agriculture in the United Kingdom, it may be inquired in what respect our position would have grown better by the increased production in other parts of the Empire, since imports from the colonies are as liable to interception by hostile cruisers as imports from foreign countries.

In the first place, it will be observed that, so far as attack on our sea trade-routes is concerned, we shall, at any rate, be no worse off than before.

In the next place, by multiplying our sources of supply, and therefore the routes by which it reaches us, we are decreasing the risk of interruption of any one route taken separately, and increasing our chance of crushing the hostile naval Power speedily; for the greater the number of routes followed by our merchant ships, the more the enemy must spread his forces in order to harass them. Moreover, the routes from the colonies are generally more remote from attack than those from the foreign countries which supply us. On the other hand, it is clear that as the Empire becomes more self-supporting, the more will the transit of supplies become concentrated on particular routes, and the less in proportion will be the first advantage noted, although, to

some extent, this would be counteracted by the fact that, in actual time of war, supplies would be procured from all possible friendly sources.

In one respect, however, we should find ourselves in an increasingly favourable position—namely, by our decreasing dependence on countries which, on the outbreak of hostilities, might close their doors on all trade with the United Kingdom. It is, for instance, conceivable, although it may be hoped not even remotely probable, that circumstances might arise which, in the case of one country alone, would deprive us of 60 per cent. of our imports of wheat, or 48 per cent. of our total supply. However remote that danger may be, it is one which no responsible statesman could neglect; while if it were never to become actual fact, there are still other countries in regard to which the possibility is not so remote, and the failure of whose exports to us would be very serious.

It is surely, then, to be desired that we should endeavour to place ourselves in such a position that, even if some temporary sacrifice were thereby to be borne, we should draw our supplies from our own territories, within which no such cause of failure could, under any conceivable circumstances, occur, unless we admit such as would entail a disruption of the Empire. This must be followed by our complete and final downfall as a great nation—a case not worth discussing, as then, indeed, ‘nothing more would ever matter.’

Lastly, the danger of the commercial method of warfare—of making a gigantic corner against us in food supplies—would disappear altogether, as it is inadmissible that any part of the Empire would pursue so suicidal a course as to be party to such an operation. No contracts entered into in combination with it would be allowed validity.

It would be well here briefly to call attention to some other

contingencies, not dependent upon war, but possible of occurrence at any time.

It cannot be contested that plentiful harvests must not be considered an invariable condition, whether in the United States or in any other country. As matters now stand, a widespread failure of crops in the United States would cause a rise of prices only less considerable than that which would take place in a great war, and bring upon us vast distress. It would seem wise statesmanship, apart from any other consideration than this, to employ means to encourage the development of our Imperial sources of supply, so that the whole world's reservoir may be enlarged. I must, of course, concede that any part of the Empire is liable to the same risk, but certainly not all parts at once; and if any one of our own supply-grounds even temporarily dried up, the void would be filled to a great extent not only from the others, but from all parts of the world. The risk does not thus disappear, but it is largely diminished.

Again, it is evident that as population grows in foreign countries—and in the United States it grows at an enormous rate—so will their home needs become greater and their surplus supplies for other nations decrease.

It may be replied that this is a matter which, to no small extent, would adjust itself automatically, since prices would gradually rise as demand increased in proportion to supply, and areas not before productive be thus brought under cultivation. There would, nevertheless, be wisdom in anticipating this action, and by the immediate increase of the productive area, at a relatively small cost, in indefinitely deferring the great rise of prices which must ultimately occur.

The extreme undesirability of rendering ourselves almost wholly dependent on one foreign country for our supply of food, or of any raw material, is well exemplified by the recent American corner in cotton, which has entailed serious

hindrance and no small loss to the Lancashire cotton trade. Apart, too, from this special and temporary circumstance, it appears that a state of affairs is coming about by which that trade may gradually be paralyzed without much prospect of improvement for a considerable time to come.

The cause of this can be traced, with certainty, to American Protection. Behind the cover of the tariff-wall raised by the United States, a large and flourishing cotton-manufacturing trade has been developed, which has not only deprived Lancashire of a rich market, but has converted the former customer into a competitor. The home demand of the American industry for American-grown cotton has increased constantly. Already our manufacturers lie under the disadvantage of being unable to obtain in sufficient quantity the quality they require, their American competitors having the pick of the market before them. There is apparently small prospect of any change for the better, and the only reliable remedy is for the English manufacturers to free themselves from their dependence on the American cotton-growers.

With this object in view the British Cotton-growing Association has been directing inquiries as to the possibilities of extending the growth of Egyptian cotton to the Soudan and encouraging it in British colonies and dependencies. West Africa, for instance, appears to offer a particularly promising field. That, as far as possible, such fresh fields should be reserved for our own manufacturers, in order that they may not again find themselves in a similar plight when once recovered from it, and that the Imperial Customs-union advocated would promote that end, can scarcely be reasonably contested.

It has been well pointed out,* as one of the most significant points in the Census returns for Lancashire, that

* *St. James's Gazette*, June 19, 1903.

although the number of persons over ten years of age increased between 1891 and 1901 by 410,000 the number of females earning wages increased by only 1,200, there being no room for women and girls in the cotton-mills, and no other industry of any importance in Lancashire in which they can be employed.

The gradual shortage of supply above noticed in a raw material necessary to maintain one of our greatest manufacturing industries is a significant illustration of what may occur in our supplies of food imports. It serves as a warning which we should be surely rash to neglect, and which emphasizes the necessity of encouraging, as far as is reasonably possible, the productive capacities of the Empire, and of liberating ourselves thus from our too great reliance on one foreign country for the bread by which we must live.

CHAPTER XIII

PREFERENTIAL CUSTOMS DUTIES—*continued*

Classified summary of purchases of United Kingdom of some principal food supplies—Shows situation advantageous for system of taxation proposed—But it would not largely revivify agriculture in United Kingdom—Colonies being 'producers' as well as 'markets' no objection—Cheapness the great object of Free Trade a delusion—Example of disutility in cheapness—Example of disadvantage in cheapness—True object of Free Trade—Under existing conditions impossible—Danger of these conditions to us—Further delusions of Free Traders—Principle to be followed in future commercial treaties.

BEARING the above observations in mind, attention may now be drawn to the following summary of the purchases of the United Kingdom of some of its principal food-supplies from beyond the seas :

AVERAGE IMPORTS, 1896-1900.

CORN STUFFS.				BUTTER.			
From all British Possessions.	Per Head of Population.	From all Foreign Countries.	Per Head of Population.	From all British Possessions.	Per Head of Population.	From all Foreign Countries.	Per Head of Population.
Millions of cwts.	lb.	Millions of cwts.	lb.	Millions of cwts.	lb.	Millions of cwts.	lb.
21·25	59·8*	168·52	469·8	0·474	1·31	2·8	7·73

* This figure would have been more favourable had India not suffered a famine in 1900.

AVERAGE IMPORTS, 1896-1900.

MEAT (Fresh and Preserved, exclusive of Poultry and Game).			
From all British Possessions.	Per Head of Population.	From all Foreign Countries.	Per Head of Population.
Millions of cwts. 3·8	lb. 10·6	Millions of cwts. 12·3	lb. 34·24

The situation, then, is exactly the reverse of what it should be. We are supplied chiefly from foreign sources, although we could, if we pleased, provide for ourselves from our own estates to our great advantage. It is, therefore, on the other hand, precisely the situation which lends itself with the greatest advantage to the system of taxation described.

A schedule is attached (Appendix II.*), showing a rough scheme of import duties on foodstuffs imported from foreign countries, together with the proportion these imports bear to the total for each article specified. This schedule must only, however, be regarded as an illustration; its accurate preparation, and that of schedules of duties on other imports, requisite to bring the revenue up to the necessary level, must be left to experts, with all information, of which but little is within the reach of a private individual, at their disposal.

In this discussion I cannot pretend to do more than attempt to lay down the general principles which should guide them.

It must not be expected that this system would do much to re-establish agriculture in the United Kingdom. It

* Owing to the unfortunate terms of the Brussels Convention, sugar has to be omitted from this schedule, since the sugar duties cannot be so modified as to grant preference to the colonies.

would do something, no doubt. Agricultural prosperity would revive to some extent; the exodus of the population from the country to the towns might be retarded; the number of agricultural labourers might increase, and they would be better paid, with no injury to the other labouring classes of the country, since the demand for other home products would increase also; and we should be able to draw annually a few more weeks' supply from our own soil, a result which might be of critical importance in time of war. But we can scarcely hope for more.

In the colonies, however—in those great outlying counties of England—a splendid agricultural industry would spring up, with all its concomitant advantages.

It is sometimes argued that preferential trading within the Empire is not favourable to the United Kingdom, because the great colonies are 'producers' as well as 'markets,' and that, although they would be quite willing to sell us their produce in our markets, we should find them to be competitors in their own. This does not appear to be a contingency the possibility of which need inspire us with any fear. The trade returns show that, in the matter of manufactures, the colonies are to a very large extent dependent on imports, while their exports are chiefly food-stuffs and raw, or semi-raw, materials.

If, by keeping our ports freely open to them and imposing a reasonable duty (which need not, and indeed should not, be prohibitive, since it would then defeat its own ends) on the principal articles of foreign produce similar to theirs, while they accord us a distinct preference over foreign countries, it cannot be contested that the trade between them and the mother-country would progressively increase. The more of their produce they could sell to us—and here they can find an almost unlimited market—the richer they would become.

Moreover, we should have no further need to fear the

deterioration of British thews and sinews, nor the want of men of heroic build and endurance, as well as heroic courage, to fight our battles for us.

Since we are, however, an improvident and unthinking people, addicted to a preference for dogma over reason, and owing, probably, to a certain intellectual indolence, easily dominated by cant and big names, we prefer to leave our own estates fallow and to feed on those of others irrespective of all changes of conditions. We run our theories mercilessly to death. One strange delusion which has taken fast hold of us is that cheapness is the first and last object of Free Trade, and its most admirable result. It is, of course, nothing of the kind.

A good example of the 'disutility' of unnatural cheapness may be found in the inferior flour of summer wheats with which this country is flooded from America. Being white, from this is made the bread consumed, especially in the towns, by the poorer classes, who insist upon white bread. They mistake whiteness for good quality. They might as well eat so much Brown and Polson's starch. A differential duty would cause all this deleterious stuff to disappear from our markets. It is shipped here at no profit in order to keep American mills going between the winter crop supplies. Unnatural cheapness conduces, too, to the wastefulness which has become one of our national sins.

That the pursuit of cheapness dependent upon what are supposed to be the immutably true principles of Free Trade may be apparently a success while really a failure is again well exemplified by the overcharge which we suffer in the price of imported flour as compared with the cost of the wheat. According to a statement drawn up by Mr. T. G. Read in September, 1895, we had paid during the ten years 1885-1894 an overcharge of £18,005,200 by importing flour instead of the equivalent in wheat. This sum is thus made up :

	£
Excess paid for imported flour over cost of equivalent in wheat	4,931,800
Value of offals of the said equivalent in wheat left in the hands of the foreign exporters ..	13,973,400
	<hr/>
	£18,005,200

By a quite recent statement (June 11, 1903) the same authority brings his calculations down to the end of 1902. He observes that since his statement was published in 1895 we have been paying less for imported flour than its equivalent in wheat, proving his contention to be correct. The total amount we have paid for flour imported during the seven years 1896-1902 less than we should have paid for its equivalent in wheat was £848,300, while the value of the offals left in the hands of the foreign exporters during the same period was £12,438,200. The net overcharge for that period was thus £11,589,900, and for the whole period of seventeen years £29,595,100.

This is surely a strange advantage which Free Trade has conferred upon us!

But mere cheapness was not, I repeat, the object of Free Trade; that object, now seemingly quite lost sight of by its most ardent devotees in this country, is that men, in their exchanges, should obtain commodities at their *natural* prices. This is an impossibility when we alone are Free Traders and all other countries Protectionist.

Bastiat's rather tiresome fable of *Libera* and *Vincta* was pretty theory, but has become quite untrue in practice. Protection acts as a bounty for exporters from the protected countries, as Canadian producers know too well, and as some of our own trades are beginning to feel. Import duties imposed on goods competing under these artificial advantages are really no more than countervailing. 'Protective' is too strong a term to be applied to them as generally understood; 'self-defensive' would be more accurate.

It is admitted that they might cause a decrease in our foreign trade. But with our ports left open to the colonies—especially if they adopt Free Trade within the Empire, and, until they can attain to that, grant inter-Imperial preferential duties—the ‘home’ markets of the Empire would be so stimulated that there would be no loss, but gain.

Judged by results demonstrated, as I venture to think, in earlier pages of this work, protected countries have, of late years, since the effect of the change of conditions has been felt, done better than we who have refused to depart in the slightest degree from our Free Trade attitude towards them. Instead of our securing the larger share of the increase of the world’s trade, it is they who have done so. Conditions remaining the same,—the probability is that they will alter only to our disadvantage if we adhere to our mistaken prejudices,—this outpacing of us can only continue in increasing ratio. When protected countries can buy our specialities cheaper home-made, when they can undersell us in them in all other markets, including our own, no amount of theoretical proof that Free Trade is the correct policy will save us from ruin and collapse.

I have endeavoured to show that if under one set of conditions Free Trade was good for us, it does not follow that it must also be so under quite a different set. But another curious delusion of ‘out-and-out’ Free Traders is that their theories must hold good under no matter what conditions, and that, among other things, the more other countries develop their industries, the better market will they offer to ours, whether their industries cover the same ground as ours or not. Yet, if under such conditions exchange were to continue between them and us, it would be a perfect instance of ‘living by taking in one another’s washing.’

Nor is it true that if, as the Secretary of the Cobden Club wrote not long ago in the *North American Review*, ‘the

American producer is so unreasonable as to wish to be paid for what he sells, he must graciously permit us to go on producing something ourselves.' Of which of her industries is America to be so kind as to deprive herself, in order to provide us with means to pay for what we want? She will take payment in whatever form she can get it until we have nothing left wherewith to pay, and, then she will no longer 'graciously permit' us to be one of her customers. Meanwhile she will have transferred to herself all our share of the world's trade, and we shall have become small enough in wealth and power to satisfy the most rabid Little Englander. All that will be left to us will be a part of our much-reduced home markets in these islands; we shall have difficulty in importing such necessities as we cannot produce ourselves; foreign markets, and those extended home markets for which I plead, will have been lost to us for ever.

Even now our exports to the United States are insufficient to settle our trade debts, and to effect settlement whole blocks of our industry are being transferred to Americans without our very well apprehending what is going on: I may give as instances lines of shipping, the electrical engineering industry; witness also their investments in our 'gilt-edged' securities and our export of their securities to them. Still the fatal 'too late' has not yet gone forth against us, and in our prosperity we find it hard to believe that it ever will.

But, as I have before observed, self-complacency and satisfaction with the present afford no safeguard for the future. In adapting to our needs the living examples of our two chief rivals, under conditions greatly superior to those possessed by the one, Germany—what, indeed, is her *Welt-politik* but an expression of her desire to secure conditions as good which she certainly would not waste as we do?—and at least equal to those possessed by the other, the

United States, we shall find strength, security, prosperity—diminished foreign trade perhaps, but more than compensation in remunerative ‘home’ markets over the whole wide expanse of British Empire.

I have not attempted to sketch out any system of preferential duties which the colonies should grant the mother-country. Owing to the varying conditions it is improbable that it could be uniform, and an intimate knowledge of every colony would be required to meet the views and possibilities of each, until inter-Imperial Free Trade is established.

I will merely add this: that in the negotiation of future commercial treaties it must be clearly laid down, and be resolutely maintained, by the British Government that no preferential treatment by the colonies of the mother-country, or *vice versâ*, shall entail a loss of the most-favoured-nation treatment. It must be understood, once and for all, that the mother-country and her colonies are as much one country as the United Kingdom. Any further surrender of our immense natural advantages to what has become false theory may prove to be an irretrievable and fatal blunder.

CHAPTER XIV

IMPERIAL RECIPROCITY AND ITS OBJECTORS

Summary of main conclusions arrived at in previous chapters—Mr. Chamberlain's invitation to discuss Imperial fiscal policy—Question has not been sprung on country—Weight of national conservatism and self-satisfaction—Present movement originates from colonies—Conference of London, 1902—Summary of Mr. Chamberlain's views then expressed—Colonial Premiers on Free Trade within the Empire—Unwisdom of treating objections to change of fiscal policy as merely 'ancient shibboleths'—Summary of these objections.

IN brief summary, what I hope now to have demonstrated is—

First, the great change of conditions which has taken place since Free Trade was first established.

Secondly, the effect which some of those changes have had upon our trade, and, in general lines, the course which should be pursued to render our position secure.

And *thirdly*, the unsoundness of the financial system which has grown up in this kingdom; the efficacy, as a remedy, of the establishment of Imperial Free Trade protected, to some extent, against the rest of the world, and the absence from that remedy of the dangers with which we have always been taught that it is attended.

The longer we drift on as we are the more serious will become our situation, until, if we persist in hesitation and obstinate theorizing, it may be impossible to adopt any remedy at all, and the knell of our Empire will have rung.

Public attention has now been called to the urgency of the questions raised in the foregoing pages by the powerful and authoritative voice of Mr. Chamberlain, and it may be hoped that the national inquiry which he demands may be no longer delayed, and may be thoroughly and seriously undertaken.

In passing, the observation may be permitted that it is strange the reproach should have been brought that the 'question has been sprung upon the country.' If the country had chosen to pay attention, discussion would already have taken place, and consideration would have been ripe. It is true that no movement from within had hitherto occurred; but from without, from the other members of the Empire, appeals have been made for many years past. If they have been allowed to fall dead—if no further consideration has been afforded them than the writing, and the occasional reading, of a few leading articles in the daily press, or of essays buried in the pages of monthly reviews, it would seem that the fault must be with the leaders of public opinion in the mother-country, and with that intellectual *vis inertiae* which causes the ordinary Englishman, of whatever political party he may be, to shrink from the examination of new ideals concerning any matters outside the boundaries of his own islands. Owing to this he accepts 'what is' as 'what must be' for all time, since it is, he thinks, the outcome of the unparalleled free institutions under which he lives, and under which his country has flourished in so remarkable a manner during the second half of the past century.

There is a weight of conservatism resulting from this national attitude of mind which is exceedingly difficult to move—so difficult, in fact, that the mental eye shuts itself, almost involuntarily, to those changes of conditions which should necessitate at least a searching inquiry, if not a change of system by which to meet them. The nation thus

becomes impervious to all save that grateful and pharisaical self-satisfaction which causes us continually to thank God that we are not as other nations are, and genuinely to believe that instead of our having adopted Free Trade from a motive of pure self-interest, we did so for the good of others as much as of ourselves. Thus we pose as pioneer preachers and practisers of a new gospel which was to unite the whole world in the golden bonds of brotherly peace and goodwill. It is, no doubt, this attitude of superiority and self-laudation on false grounds which lays us open to the cruel accusation of 'perfidy' and cant so frequently brought against us by foreign nations, and which sowed the almost hysterical hatred the South African War exploded upon us from most parts of the civilized world.

The colonies, although they also view us from outside, are of our own flesh and blood, and can more readily tolerate our Pharisaism, and allow for our weaknesses. Nevertheless, it is not only their privilege, but their duty, to lay their views before us when they think that by so doing they can warn us of the results to which our purblind self-conceit may lead us, offer us remedies to heal our sluggishness, and remove the scales from our eyes. The present movement does not, in fact, proceed from this country at all; it was initiated, and has been sustained, by the colonies themselves. From the moment when Mr. Hofmeyr made his celebrated proposal that all imports into every part of the British Empire should be taxed for Imperial defence, until the last Conference of London, on the occasion of the Coronation of King Edward VII., the need for some more perfect Imperial commercial connection—some actual solid expression of the growing Imperial sentiment—has been pressed upon us by the majority of the colonies as essential to our Imperial welfare. It is of no special pertinence to the subject to give here a historical survey of these facts; but, as the last outcome of several

attempts to drag the attention of the mother-country towards them, the resolutions passed at the Colonial Conference in London in the Coronation year may well here be reproduced.*

‘1. That this Conference recognises that the principle of preferential trade between the United Kingdom and His Majesty’s Dominions beyond the seas would stimulate and facilitate mutual commercial intercourse, and would, by promoting the development of the resources and industries of the several parts, strengthen the Empire.

‘2. That this Conference recognises that, in the present circumstances of the colonies, it is not practicable to adopt a general system of Free Trade as between the mother-country and the British Dominions beyond the seas.

‘3. That with a view, however, to promoting the increase of trade within the Empire, it is desirable that those colonies which have not already adopted such a policy should, as far as their circumstances permit, give substantial preferential treatment to the products and manufactures of the United Kingdom.

‘4. That the Prime Ministers of the colonies respectfully urge on His Majesty’s Government the expediency of granting in the United Kingdom preferential treatment to the products and manufactures of the colonies, either by exemption from, or reduction of, duties now or hereafter imposed.

‘5. That the Prime Ministers present at the Conference undertake to submit to their respective Governments at the earliest possible opportunity the principle of the resolutions, and to request them to take such measures as may be necessary to give effect to it.’

An instructive commentary upon these resolutions is to be found in the opening speech of the Colonial Secretary, thus summarized in the general report on the Conference

* ‘Blue Book,’ Cd. 1299, 1902.

(Cd. 1299, p. 35): 'They [the British Government] are satisfied that a system of Free Trade within the Empire, if it could be attained, would lead to the rapid and profitable exploitation of its boundless natural resources, and at the same time promote the natural and healthy growth and expansion of its manufacturing industries. It would change the various parts from a series of commercial units to an organic whole, the strength and solidarity of which would grow in proportion with its commercial and industrial development, and would lead inevitably to that closer political union which is so generally desired.'

It would seem that, theoretically speaking, at any rate, the proposition here laid down with admirable brevity and clearness would be accepted without much demur by some, at least, of those who at present declare themselves to be uncompromising opponents of the scheme for preferential inter-Imperial trade sketched in general terms by the Colonial Secretary as a fit subject for inquiry.* It would seem also that, in theory, it was generally accepted by the Colonial Premiers, since they agree, in the second of the resolutions above quoted, that *present circumstances*—a significant expression—preclude the adoption of general Free Trade within the Empire. Presumably 'present circumstances' mean 'practical politics,' since, from the point of view of revenue pure and simple, it is clear that by the adoption of a compensating Excise so far as the products of other portions of the Empire are concerned, or the restriction of Customs duties in each colony, in regard to those products, to such as are not produced in the colony itself, the principle of Free Trade would not be disturbed, nor the sources of revenue impaired. The truth is that, under their Protectionist systems, the colonies have created vested interests within them with which, from the catch-vote point of view

* Cf. Sir E. Grey's speech at the National Liberal Club, reported in the *Times* of July 1, 1903.

—one, unfortunately, few Governments, whether colonial or not, are strong enough to disregard—they find it exceedingly difficult to cope. The question, then, arising for us is whether it is not better, as previously stated in this work, to advance by steps of preferential treatment towards that Free Trade ideal which must never be left out of sight.

The mere brushing aside of the objections raised as being an ineradicable attachment to ‘ancient shibboleths,’ unworthy of any respect or serious discussion, is both insufficient and unwise as a reply. The fact that the United Kingdom after the adoption of Free Trade as a fiscal policy did enjoy great prosperity cannot be disputed; nor can it be contested that the permanent endurance, under all and any conditions, of the economic advantages which its adoption brought us at one period, has become a settled conviction in many superior minds. The *post hoc ergo propter hoc* argument is, no doubt, as fallacious in regard to Free Trade as to any other proposition. The contention, therefore, that the *onus* of proof rests entirely with those who believe a change of fiscal policy for this country essential to its future prosperity does not appear to be just. At the same time settled convictions are not to be disturbed by mere mockery or abuse; and when, as in this case, they are, as I have said above, held by many superior minds, dispassionate argument is greatly preferable to the generation of heat.

It behoves us, therefore, to consider what are the objections to preferential treatment, and whether they are sufficiently important and well founded to lead us altogether to discard it, and with it all hope of reaching the ideal put forward.

In the first place, it is necessary to make an essential admission which I have already freely made—namely, that there is no conceivable system of preferential treatment

which could promote the objects in view and not include the taxation at least of the imports of food-products coming from foreign countries—that is, countries outside the Empire—into the United Kingdom. This, in itself, is the first great stumbling-block and rock of offence to the opponents of the system, and heads the first series of their objections. It is, they say, ‘a tax on the food of the people,’ and as such it is essentially and radically bad. It must raise the cost of living, raise therefore the rate of wages, and thus increase the prime cost of manufactures which it is found already difficult enough to maintain under the stress of foreign competition, and which would thus be finally ruined. Moreover, there are certain classes of workers in civil employ, such as postmen, clerks, and others, whose wages would not rise with the increased cost of living. Then, according to the works of Mr. Rowntree and Mr. Booth, some 30 per cent. of our population—say, twelve million souls—are living already on the very verge of pauperism, and a slight increase in the cost of living would plunge them into a state of actual starvation.

The second series of objections, ancillary to the first, is that the system proposed means the abandonment of Free Trade, and a return to the evils of Protection; that the prosperity of the United Kingdom during the last half of the nineteenth century was due to Free Trade; that it is under a system of free imports only that the consumers of this country can obtain the commodities they require at the maximum of cheapness, while cheapness to the consumer ensures the prosperity of all; and that, our trade with foreign countries being three times that with the colonies, it would be a mistake to ‘dislocate’ the former in favour of the latter.

In the third place, it is advanced that, if the system of colonial preference really attains one of the objects sought—namely, the replacement of foreign by colonial imports—this must be destructive of the other object of ‘broadening

the basis of taxation'; for, since it is assumed that colonial imports, or at any rate the greater part of them, will continue to come in free, it is clear that as they increase so will the new revenue decrease, until, finally, it disappears altogether.

Finally, it is objected that preferential duties have been tried before, that they failed, and were abandoned; that the difficulty of according an equal benefit to all the colonies will be so great as to render such equality of treatment impossible; that hence must arise jealousies and heart-burnings as between the mother-country and the colonies, or among the colonies themselves; that should a tax be imposed upon food, and a shortage of the world's supply occur which would cause food-prices to rise largely, it might be necessary to remove the tax; but that, since we should have bound ourselves to maintain it by arrangement with the colonies, we could not remove it without their consent, and they might not give their consent; that popular feeling in this country might, however, become so strong that we should be bound to remove it whether the colonies consented or not, causing strong resentment on their part; that the above results of preferential duties would lead to the exact opposite of what was intended—namely, to the disruption of the Empire instead of to closer union by adding 'business' interests to ties of sentiment. The ties of sentiment, they say, are all-sufficient.

I have endeavoured here to reproduce as fairly as I can the various objections raised. The name of the objections launched against the scheme is legion, but many of them are only repetitions dressed up in a new form, and I hope to have practically covered the ground. It will be my business in the ensuing chapters to examine each group of objections separately, and should this entail some repetition of reasoning already employed in previous pages, I hope my readers will bear with me; I will repeat only where the necessity of the case obliges me.

CHAPTER XV

THE TAXATION OF FOREIGN FOOD SUPPLIES

'Taxation of the people's food'—Effect upon prices of articles of food taxed—Compensating effect of free imports from colonies—Time necessary for that effect to be reached—Professor Davidson on effect of preferential treatment—Other opinions of Professor Davidson discussed—Possible compensation by reduction of taxes on other imports of food—Question whether theoretically advisable—Other causes, apart from war, for rise in food prices—Encouragement of colonial supplies a remedy for some time—Also increased supply of labour in the colonies—Effect of action of Beef Trust compared with shilling corn tax—Error of supposition that if food prices rise *per se* wages must also rise—Necessity of consideration of concurrent circumstances—Discussion of these—Leads to conclusion that economic wages would rise—Same considerations apply to what are sometimes erroneously considered as 'non-productive' classes—effect of proposed scheme on 'submerged third'—Consideration of usual Free Trade argument as applied to this scheme—Which will be found to ameliorate condition of poorer classes of population.

WE have, then, first to deal with the objections raised against any taxation of the people's food.

1. That it must tend, in the first place, taken as a proposition separate and by itself, to raise the cost of living, in so far as the articles taxed are themselves concerned, will not be disputed by any serious economist. But upon this point several considerations at once arise. To begin with, it must be inquired how much the prices of the articles taxed will rise, and for how long the increase of price may remain with us. It being assumed—as, indeed, is most probable—

that colonial produce will continue to enter the United Kingdom free unless taxed for revenue, it is quite clear, as I have endeavoured previously to demonstrate, that the prices will *not* rise by the whole amount of the tax (pp. 107-110). Unless the improbable event be considered of a gigantic combination of, say, all wheat-growers or of all meat-growers, embracing the whole world—an event which is as possible, or the reverse, under one system as another—the element of competition will enter here, as in all departments of trade, with the result that, in order to compete with the colonial product, the foreign producer must forego part of his profit—that part varying directly with the productivity of the colonies and the advantage granted them.

It is true that, if the tax were so high as to prohibit importation from foreign countries altogether, the moderating effect of that importation would also disappear, and the rise of price would closely approximate to the amount of the tax, until the productivity of the various colonies and dependencies of the Empire had become so extended that the competition among them would again cause prices to fall. On the other hand, there certainly can be no intention of imposing any such prohibitive tax, and as the system proposed takes effect, and colonial replace foreign imports in an intensifying degree, the competition just mentioned must necessarily prevent prices from rising—at any rate, beyond the level at which foreign produce ultimately ceases to compete in our markets. Indeed, it may be considered as almost certain that improvements in methods of production and labour-saving appliances will be such that, even before that time, prices will have sunk to their original level. It is no answer to say, if that be so, prices would have sunk below that level to the extent of the tax. The effect indicated will have arisen mainly from the immensely increased competition for our markets as between the colonies and foreign countries, and among the colonies

themselves, and would not have taken place had the colonies not been placed in a position to compete.

The time that may be necessary to elapse before the effect may be fully reached it is not possible to predict, but that it would be long need scarcely be feared. Professor Davidson* gives it as his opinion that, in the colonies, 'manufactures would languish, not so much because of English competition as because the labour and the capital of the colony would be diverted to the extractive industries, where there would be the prospects of higher wages and higher profits. By the natural process of trade and competition each colony would concentrate its energy on the production of raw materials, and "hewers of wood and drawers of water" the colonies would by their own acts most certainly become. Agriculture would flourish exceedingly, no doubt, and there would probably be a great influx of population to exploit the undeveloped resources of the colonies.' The Professor might have added that there would also, in all probability, be a considerable influx of capital from the mother-country, an unmixed benefit both to herself and her children, since the transfer of labour and capital *within the Empire* to those points where both can be naturally employed to the greatest advantage, would be to strengthen it in the best and most effective manner possible, and to promote the highest prosperity of all its parts.

The tone of regret which he apparently assumes in considering these results is not, especially in the case of so distinguished an economic authority, very comprehensible. Surely, if colonial manufactures were to dwindle because it is not to their pursuit that colonial energy can be most profitably turned, that would not be to 'undo much of the labour of the past quarter of a century,' but to save labour from being wasted. That is an axiom of Free Trade, and one which,

* 'Commercial Federation and Colonial Policy,' p. 93. Sonnenschein and Co., 1900.

in this case, since no question of nationality need interfere, may be left to work itself out to its utmost conclusion. He puts forward land-booms and speculation as possibilities to be feared, when, it would seem, the real safeguard against land-booms—namely, a continually and largely increasing demand for the products of the land—is present; he fears that ‘English goodwill’ may not be continued, when, *ex hypothesi*, the preferential treatment which is to produce colonial prosperity has been granted by the mother-country after the fullest inquiry on her part, and by the deliberate choice of her people.* Under such conditions English ‘reaction’ does not fall within the sphere of practical politics.

In fact, the arguments here adduced by Professor Davidson against preferential treatment are most strongly in its favour, and entirely support my own view that it would act as an education to the colonies, and swiftly lead them to that Free Trade within the Empire which he considers, as I do not, to be a chimera. When once they had experienced the advancement of their prosperity ‘by leaps and bounds,’ by turning their energies into those channels for which Nature has best fitted them, their Protective proclivities towards the mother-country would fall away from them, and they themselves would be conducted naturally into Free Trade relations with her.

While the cost of living need not thus be materially enhanced in respect of foreign foodstuffs taxed, nor the time during which this enhancement continues be long, there are means of compensation in the way of reduction of cost in other directions which might obviate the increase altogether. Thus, such a large preference might be given to

* It must, however, be noted that Professor Davidson composed his work long before the latest developments of the question in this country, due to the initiative of the Colonial Secretary. It may be that the action of the latter in this matter, in regard to which the Professor declares the colonies to be ‘passionately in earnest,’ has caused him to modify his hostile opinion, vigorously expressed, of that statesman.

the colonies in the matter of tea and sugar, which, although perhaps not so necessary to keep body and soul together as bread, are still, as commonly understood, 'necessaries of life,'—and, if this were not found to be sufficient, the reduction might be extended to tobacco,—that the cost of living as a whole might be made to remain constant. I confess, however, that I am doubtful whether such a course would be politically advisable or economically sound, although in any case the colonies should receive distinct preference in the products named. It cannot be either good policy or sound economics, as I have previously pointed out, to tax one portion of the community disproportionately to another portion.

That it is necessary, seeing the unavoidably high rate of expenditure which the country has to maintain, to broaden the basis of taxation is acknowledged by some of the highest of our living financial authorities, and, as I have attempted to show, the best method of broadening it is to tax an article of general consumption. I am quite free to admit, on the other hand, that, as a matter of pure economics, 'taxation for revenue only' is the best kind of taxation, and that a tax on imported foreign foodstuffs, leaving colonial foodstuffs to enter free or on preferential terms, does not meet that definition; but I have endeavoured to show why it would be advantageous, in spite of the modified drawbacks which, of course, attach to it. It is, however, clear that to impose a tax on certain articles of general consumption and to remit taxation to a corresponding extent on other such articles, would not be to broaden the basis of taxation in the sense of a more equal distribution of the burden. I cannot, therefore, say that I advise it, although in a discussion of the subject it must not be left unmentioned.

Before concluding this section, there is another consideration to be taken into account, to which allusion has already been made*—namely, the inevitable rise of prices in food-

* *Vide supra*, p. 134.

stuffs which is bound to occur in the future, (and a future probably less remote than partisans of the *laissez-faire* policy desire to think),—unless we multiply our sources of food-supply; and the steadying effect upon prices which, from that point of view, our encouragement of colonial production would ensure. It must not be forgotten, as in this controversy it generally seems to be, that this is not the only country in which the demand for food-supplies is continually increasing; it is not even increasing here at the most rapid rate. There seems to be a tendency to assume that we must consider the present position of the world as permanent without any regard to the future, as if everything were to be immediately crystallized for the benefit of those who argue against any change in our own methods. That is a mere wilful blinding of the eyes which must lead to a terrible miscalculation. It is perfectly clear to all but those who will not see that the cultivable area of the United States, from which at present we draw over 60 per cent. of our wheat-supplies, is gradually contracting, while its industrial area is gradually expanding, and its population increasing at an extraordinary rate. Germany, in spite of all her ‘tariff wars,’ continually calls for more and more food from the outer world, (in the five years 1880-1884 she imported a net average of 33·6 million cwts. of grain, flour, and meal, and in the five years 1896-1900 a net average of 100·9 million cwts.). In every civilized country in the world, except France, and in almost all ‘semi-civilized’ countries, population is expanding. In all civilized countries industry is growing at the expense of agriculture.

It is, of course, true, as I have previously remarked, that the effect upon our colonies in the conversion of their potentially cultivable into actually cultivated areas would in any case be automatic, owing to the general rise of prices as the demand becomes greater, and the supply shorter, in other parts of the world. But it cannot, I think, be contested

that not only, as I have already endeavoured to show, would the direct encouragement of colonial cultivation, if wisely and moderately applied, not increase present prices to an appreciable extent, but that, seeing the enormous fertile areas now left unproductive which they have to draw upon, we need not fear a considerable rise of price for a very long period of time to come. I admit at once that there is here an assumption that other countries will maintain their Protective tariffs against foodstuffs, and that if they did not do so the argument would be vitiated to an extent largely governed by the preferential tariffs of the colonies in favour of our manufactures. I admit also that the rise of price indicated as ultimately unavoidable in all parts of the world must take effect in the colonies also; but I contend that, under the system proposed, that effect would be indefinitely deferred, an advantage which might be incalculable, since, in any case, we should be the first to feel it.

Again, demand for labour in the colonies—that is, for immigrants—must progressively increase, as the sources of supply for the United Kingdom were gradually shifted from foreign countries to the colonies. To some extent, since the demand of food-supply would proceed from the mother-country, the supply of labour to meet that demand would proceed from her also. With some intelligent direction it may be surmised that she would practically meet the whole demand, and that by far the greater volume, if not the whole, of the stream of emigration from her shores, would flow to other portions of the Empire.

Although it is true that this would not lessen the whole demand for sustenance within the Empire, and that if the productive power of the Empire were to remain in constant proportion to its population the mere shifting of population could not influence prices in any degree, it

must be remembered that the conditions would be altogether different. The shifting of population would, in fact, relieve the mother-country of a surplus which is only burdensome to her, and which increases the demand of food-supply without any proportionate production wherewith to satisfy it, while it would provide the colonies with labour which would produce in a proportion enormously exceeding its own demand, a condition which, so long as it exists must have a strongly lowering effect upon prices. There might also be a tendency to an influx of population from foreign countries, which, were it to take place, would diminish the period of that effect, while intensifying it during its continuance. If, however, there were an intelligent direction of emigration from this country, and if—an essential condition, and one which the colonies must lay well to heart—that emigration were welcomed in all parts of the Empire, the disturbance would be diminished to a degree so small as to be barely perceptible.

The various causes above briefly discussed would contribute together in so effective a manner to steady prices that it is doubtful whether, with the exception of the immediate moment of change of system, they would rise to any appreciable extent from the mere fact of that change for very many years to come. That they might rise as a result of other causes is unquestionable; but since those causes would occur in any case, they can be left out of account.

In passing, it may be noted as strange that, presumably from a national habit of mind, while discussion is concentrated on the question of what might be the effect of a tax on food imposed at our ports, no notice, or, at any rate, almost infinitesimal notice, is paid to some of those causes which are working, and have been working, before our very eyes. While, for instance, discussion was raging round the imposition of a shilling corn tax because it might

be supposed—a supposition which was proved in the result to be imaginary—to be protective, the price of beef, by the action of the Beef Trust, had risen by a penny to twopence a pound. Whether the cost of living is increased by a tax or not is of no importance whatever to the poor householder; the great fact to him is that it has increased. I heard of no proposal to raise wages because the price of beef had risen; yet, if in the one case they should be raised so, surely, should they be in the other. Indeed, the cases are by no means equal, since no part of the profits of a foreign trust finds its way into the British Treasury. So far are we driven, by the incubus of one idea, to grapple with shadows, and to allow solid facts to work their way unperceived!

Leaving, however, such considerations as these on one side for the moment, I will assume, for the purposes of argument, that the new tax, in spite of the moderating tendencies above discussed, does to some extent raise the cost of living, and I will proceed to examine whether the scheme propounded will strengthen us to bear that rise, in endeavouring to meet the next objection enumerated.

2. This is, that the cost of living being raised, wages, and, consequently, the cost of production, must also rise. At the very outset I should point out that we are presented here with a fallacy into which both sides taking part in the discussion on the platform and the press appear prone to fall. The mere fact, *per se*, that the cost of living is raised by no means constitutes a reason that wages should rise also. Wages are not to be counted by money, but by the means of well-being with which they provide the labourer; under conceivable circumstances a penny might be better wages than a pound. Thus, were money wages to rise only in proportion to prices, the labourer would be still no better off than he was before. But, always taking the rise in cost of living *per se*, there is no reason why wages should rise at all; in fact, the reason lies the other way.

If we suppose that there are no concurrent counterbalancing circumstances—that, for instance, the cost of living rises only by the action of foreign trusts—it is quite evident that wages, in the economic sense, must fall, since not only would the means of the employers be decreased, but the purchasing power of the money wages earned be decreased also; the whole effective capital of the country must decline. As a natural corollary, strengthened by the possibility that the quality of labour might deteriorate owing to less sufficient food, actual cost of production would rise, foreign competition press more hardly than ever upon us, and our national output decrease. Thus the demand for labour would fall off, and the rate of wages with it. Those, therefore, who contend on the one side that owing to a rise in cost of living wages must rise, and therefore the cost of production, or on the other that wages must rise sufficiently to counterbalance the rise in cost of living, are both equally wrong; both fall into the common error, among others, of leaving concurrent circumstances out of account. It is therefore of the highest importance to examine whether the concurrent circumstances under the proposed scheme are such as, not only to counterbalance the tendency of wages to fall were the cost of living to rise, but to increase the economic value of wages.

To some extent the question here put has already been answered. It has been pointed out, with the support of the authority of Professor Davidson, that even by the aid of preferential tariffs, the agricultural production, and the agricultural exports of the colonies to the mother-country, must progressively increase—an effect which would be more and more intensified as the preference became greater, until actual Free Trade within the Empire were attained. But it is clear that if the colonies increase their exports to us, so must we, in order to pay them, increase our exports to

them. No doubt, to some extent, this payment would be effected in terms of 'invisible exports,' chiefly freights, and of interest on capital invested in their development. At the same time, supposing our visible exports to bear only the same proportion to our invisible exports as they at present bear in our oversea trade (and there is no reason to suppose that it would be less), the visible exports, principally manufactures, must increase to a very large extent. *Ceteris paribus*, here, already, is a cause for a largely increased demand for labour, entailing a real rise in the rate of wages.

To this it is objected that *cetera* are not only not *paria*, but that they must be altered to our disadvantage, since our trade with foreign countries, by reason of a protective tax, must be dislocated. This is a point with some aspects of which I have already attempted to deal,* and a rather fuller discussion of it will find better place lower down. I can only venture here to anticipate my conclusions to some extent, and to state that I shall endeavour to show that the stimulation of home production for our home markets, and the large increase of trade with our colonies, will more than counterbalance any possible loss of trade with foreign countries; that while wages, owing to increased demand for labour, will rise, and be less subject to fluctuation, the prices of the necessities of life will not rise to an appreciable extent, if at all; and that 'other things' are therefore in our favour and not against us. On the other hand, I shall attempt to make it evident that, if our present fiscal system is continued unchanged, the demand for labour is ultimately bound to fall to an extent to which it is difficult to set a limit, that wages, in their turn, must fall proportionately, and, consequently, that the system of free imports from all parts of the world which we now enjoy must result, however cheap commodities may be for the consumer, in disaster for the working classes at any rate.

* Pp. 101, 102.

Would these same considerations apply to what are usually termed the 'non-productive' classes, such as post-men, railway men, clerks, and so forth? I think that undoubtedly they would. A distinction seems to be drawn here based rather on a superficial view of the subject than on theory or fact. In the first place, where is the line to be drawn between the productive and the non-productive classes of workers? It seems to be forgotten that all classes of workers contribute, in their own particular sphere, to production. Let us suppose that a factory can turn out a given class of finished goods, such, for instance, as the familiar pair of shoes; the pair of shoes once finished, there apparently, in common parlance (for which economists are chiefly responsible), production is supposed to end. But, although the raw material from which the shoes are made has gained potential value from the change of form which, by the work of the factory hands and their machines, it has assumed, that value can be nothing more than potential until a further process has taken place—namely, change of place, or conveyance to the locality where the shoes can be exchanged against other commodities. Imagine, for instance, a shoe factory to be established in a Pacific island at which no ships ever touch. Any number of thousands of pairs of shoes might be turned out, but they would have no value whatever, except, perhaps, the very limited value they would represent to the isolated factory hands. It is clear, then, that change of place is an element of production as well as change of form, and that not only those by whose work goods change form are producers, but also, and quite as much, those by whose work they change place.*

If, then, production is increased by increased consumption, all classes of producers must share in the benefit, whether the worker in the factory, on the railway, or on board ship. That

* Cf. Professor Marshall, 'Principles of Economics,' book ii., chap. iii., section 1.

wages would rise in one direction and not in the others is not only contrary to economic law, but, what is perhaps generally more intelligible, to common-sense. If, for instance, in one department of production wages rise, while they remain constant (or, *a fortiori*, if they tend to fall) in another, workers would be attracted to the former and away from the latter, and the rates would equalize themselves, taking longer, certainly, in the process where skilled training was required. But apart from this consideration, increased production means increased productivity in every part of the productive process, greater demand therefore for all kinds of labour, and better wages for all.

I have alluded above only to those who work to produce change of form or change of place. But it is clear that, in the last resort, there are few kinds of labour—setting aside ‘immaterial’ services, such, for instance, as singing or reciting—which do not contribute to production. How could manufacturers and merchants do their business without their correspondence clerks or their accountants? How could their correspondence reach them without the postman? The conclusion above stated applies to all these, and the fear, therefore, that although some classes of workers might earn increased wages others would find themselves impoverished, rests on no sound economic or practical basis.

There remains the last of the first series of objections to be considered—namely, the effect of a rise in the cost of living, (always taking the supposed concurrent change of conditions into account), on what is now called the submerged third—the twelve millions of our people who, by sweeping deductions from the works of Mr. Rowntree and Mr. Booth, are supposed to be dwelling on the verge of pauperism. It is an obvious observation that if this really be a fact,—and I am bound to say that before an equally searching examination into the condition of the whole popu-

lation has been carried out, I do not think it should be accepted as such,—it forms in itself a strong case against the continuance of the conditions which have produced it. It would seem to be a fair inference that there is but sandy foundation for the old assumption that, so long as we keep our ports open, the annihilation of any particular industry should not, as regards the general economic welfare of the nation, be considered as a disadvantage, since it means not destruction of capital or worse conditions of labour, but only the transfer of capital and labour to production for which the nation is better fitted. If, under the ceaseless stress of competition, twelve—or say, as being more probable, eight—out of forty millions of our people are left stranded on the very shores of extreme poverty, it would appear that we are approaching the end of the series of ‘somethings else’ with which we are bid to cheer ourselves, if we have not already reached it. The *onus probandi* rests on those who wish to continue a system which has produced such a result, rather than on those who wish to change it.

But is the line of reasoning put forward by the opponents of any change not only economically sound, but consistent with their own point of view? The purely economic argument was absolutely heartless, not only as regards individuals, but as regards whole classes. Great distress, it was said, might ensue from the destruction of an industry, but that distress would ultimately prove to be temporary only; in the long-run the displaced labour would find room again in other industries, and the nation, as a whole, must ultimately profit by the displacement. Meanwhile, although the distress was certainly regrettable, it could not be helped, and must be admitted for the general good. The argument is two-edged. If good for those in favour of free imports—and as a question of pure economics no one, I imagine, will gainsay it—it is equally good for those who

now support the change of system proposed. But certainly it cannot be used for its own contradiction. If a rise in the cost of living proves to be for the general economic good of the nation when taken in combination with other changes proposed—and for the purposes of this special argument it must be assumed that this would be so—then the ‘submerged third’ which, according to economic axioms, must be composed of the most unfit, should not and must not be taken into account at all. No national policy should be conducted for the end of providing for the incompetent; this would be a national policy of ‘Ca’ canny,’ which must assuredly lead us to disaster.

If, however, we consider what would be the effect upon this more unfortunate portion of the nation were the proposals for the encouragement of inter-imperial trade to be adopted, it will be found that its condition would be bettered and not worsened, and that the policy advocated cannot fall under the ban of heartlessness, which, to some extent at any rate, is inseparable from the principles of Free Trade. As has been above pointed out, so far as the colonies are concerned the demand from them for our manufactures must certainly grow larger, and the demand for our home labour to that extent grow in proportion, while at the same time our home demand increasing simultaneously, and our foreign trade not being seriously affected, demand for labour must inevitably increase, on the whole, in other respects also. To these effects must further be added the undoubted fact that emigration from this country would be strongly stimulated, the supply of labour being thus depleted while the demand increased, and that, possibly—at any rate for some time—the increase of demand would be enhanced by larger requirements for agricultural purposes. The general result must inevitably be that more and more of those dismal millions would find their lot

ameliorated, either by better employment or by emigration to lands where greater prosperity would attend them, until, if not the whole—for some might be wholly incapable of salvation—at any rate the greater part of them, would emerge happily from their submersion.

CHAPTER XVI

IS PROTECTION AN OBSTACLE?

Discussion of second series of objections—Admission that reversion to Protection unavoidable—General dogmatic attitude of Free Traders — Different attitude of leading modern economists — Professor Sidgwick — Denial of his assertion that Protection here would encourage Protection elsewhere—Sir Edward Law on commercial treaties—Denial of assumption that Protection establishes routine methods—Why this is not the case—Discussion of assumption that Protection prevents capital from being most advantageously employed—Theory of international trade must be inductive—Mobility of capital and labour—Necessity of national consideration in international trade.

THE second series of objections—namely, that colonial preference, and ultimately the development from it of Free Trade within the Empire as distinct from the rest of the world, must imply a return of this country to Protection—must be met in the first place with a frank acknowledgment that the assumption is correct. It seems to me obvious that if a tax be placed upon foreign food-stuffs, a corresponding tax should be placed upon foreign manufactures, in order that producers' earnings—a synonymous term for consumers' incomes*—may be developed to the highest extent possible, and be secured against that false 'cheapness' which the modern Free-Trader wrongly assumes is bound 'to ensure the prosperity of all.'†

I must not be understood to mean that if, say, a 5 per

* *Vide infra*, p. 196 *et seq.*

† *Vide infra*, chap. xix.

cent. *ad valorem* duty were imposed upon foreign wheat and meat, a general 5 per cent. duty must be clapped indiscriminately on all foreign manufactures. The negotiation of a commercial treaty does not proceed upon such rough and ready rule-of-thumb lines; its object must be to secure for home manufactures as wide and as favourable conditions, whether at home or abroad, as possible. Any person who has had the difficult task of such a negotiation on behalf of the United Kingdom placed in his hands under our modern conditions, knows well how greatly his difficulties are increased by the fact that he enters upon the contest with his hands tied. If, on the other hand, we were to recover the arms which we have thrown away, our negotiator would secure far better terms for our manufacturing interests abroad, while bearing carefully in mind those same interests at home. For this purpose the widest and most expert knowledge on all trade questions, both in their bearings upon home and foreign trade, is required; since a tariff, in order to be useful, must be scientific in the truest sense. It cannot be questioned, I think, that an unscientific tariff might do more harm than good.

The discussion must, then, proceed on the lines of whether the above statement is theoretically and practically incorrect; whether, in other words, under all conditions, a blind adherence to Free Trade—meaning in the present case free imports—must under all conditions be the best policy for us to pursue, and, if not, whether, especially in view of the possibilities of our Colonial Empire, we have not reached the conditions under which a change of fiscal policy would be advantageous.

‘There have been many misconceptions of what Free Trade is,’ says Professor Davidson,* ‘but the strangest of all is that a *pis aller* policy like Free Trade should be regarded as a sacred principle for which men and nations

* ‘Commercial Federation and Colonial Trade Policy,’ p. 73.

should be prepared to testify.' The epithet *pis aller* must strike, as a bucket of iced water thrown in their faces, many Englishmen to whom, indeed, Free Trade has become as sacred and unquestioned an article in their comfortably accepted beliefs as Christianity itself. I am very far from wishing to adopt towards the body of Free Traders the attitude of insulting superiority and intellectual contempt which they generally exhibit towards those who venture to differ from them. Nevertheless I am constrained to believe, from the language which they hold, and their strong inclination to set mere affirmation in the place of argument—the *post hoc ergo propter hoc* argument, a dangerously easy path to fallacy, being that on which they are prone chiefly to rely, although it is, after all, barely more than an assertion—that, as a rule, they have not studied the subject upon which they so energetically dogmatize, but have indeed accepted it, as they accept the articles of their Christian faith, without question, to save themselves trouble. If, on the other hand, they would study the works of the more modern authorities on political economy, instead of trusting to vague quotations of, or deductions from, former pioneers of that complex and unstable science, they would find the foundations of their dogma much less secure than they fondly suppose, and they would certainly abandon their futile Pharisaism for a far humbler spirit of inquiry and research.

'It appears to me,' wrote Professor Sidgwick nearly twenty years ago,* 'that the foundation on which the old short and simple confutation of Protection was once logically erected has now been knocked away, and that the fashion which still lingers of treating the Protectionist as a fool who cannot see—if he is not a knave who will not see—what is as plain as a proof of Euclid† is really an illogical

* 'The Principles of Political Economy,' 1901 edition, p. 487.

† This was in allusion to the opening remark in Lord Farrer's 'Free Trade *versus* Fair Trade,' namely, that when asked to write some-

survival of a mere fragment of what was once a coherent doctrine.'

He goes on to explain that 'while agreeing with a certain school of German writers' in holding, as a conclusion of abstract economic theory, that Protection, in certain cases, and within certain limits, would probably be advantageous to the protecting country, and even, perhaps, to the world, he objects to a system departing from the simple and broad rule of 'taxation for revenue only,' because we cannot 'reasonably expect our actual Governments to be wise and strong enough to keep their Protective interference within due limits,' and because, therefore, the good which might be gained would be 'always likely to be more than counter-balanced by the general bad effects of encouraging producers and traders to look to Government for aid' instead of relying on themselves, especially since the wisest Protection in any one country would tend to encourage unwise Protection elsewhere.

The concluding consideration may be very well left out of account, our Free Trade policy having in no way modified—indeed, quite the contrary—the Protectionist proclivities of other nations, which would be much more probably abated by our following their example than holding religiously to our own way. The reflex action, as it might be styled, of our consistent endeavours to 'fight foreign tariffs by free imports,' has been, and is, expressed by our normal position with foreign countries as the most favoured nation. The advantage of this position, however, is largely exaggerated. As has been well pointed out by Sir Edward Law, in a letter to the *Times* of June 16, 1903, 'most-favoured-nation privileges constitute no guarantee against the common practice of showing less favour to British trade than to that of any other nation; moreover, without any infringement of thing in defence of Free Trade, it seemed to him as if he 'had been asked to prove Euclid or to give a reason for the rules of grammar.'

the most-favoured-nation clause, duties are worked differentially against British commodities by imposing higher rates of imports over a sea frontier than on those over a land frontier.' Besides, by their systems of 'autonomous' and 'special' tariffs foreign nations enforce their admission to most-favoured-nation treatment, which is by no means, therefore, the special monopoly of this country, as seems to be widely supposed, nor need we be ousted from it by abandoning Free Trade.

That our adoption of Protection, however wise and reasonable, would increase Protection elsewhere, either in general, or especially against ourselves, is therefore one of those unfounded assumptions which are mistaken for axioms, even by such cautious and scientific thinkers as Professor Sidgwick and others of his school. Another equally unfounded assumption—indeed, one which actual facts and experience have now conclusively disproved—is that 'the natural result of Free Trade is to stimulate competition, invention, and variety of enterprise, whilst the natural result of Protection is to establish routine methods.' I am quoting the words of Professor J. Shield Nicholson ('Principles of Political Economy,' vol. iii., p. 365), whose great work was published only in 1901, in order to give a further instance how, by dint of much repetition, unproved (in this case disproved) assumption is still mistaken for scientific axiom by a careful and highly-trained mind. If the United States be not admitted as an instance in point, owing to the large Free Trade area which they cover, neither Germany nor France will, I imagine, be ruled out; and to state that their methods are routine as compared with ours, or that ours evince invention and variety of enterprise as compared with theirs, is to state what emphatically is not the case. The fact is that economists ascribe too much importance, at any rate from this point of view, to the practical effects of Free Trade.

Theoretically it might be true that, if a country were so to manage its tariff as to cut itself completely off from all foreign commerce, its methods might become relatively routine. But this case is theoretical only. In the first place, it is a practical impossibility for any nation to hedge itself round in such a way as here described. In the next, however desirous a great manufacturing Protectionist nation—such, for instance, as Germany—may be to preserve its own home markets for itself, it is as desirous as any Free Trade nation—such, for instance, as ourselves—to secure as large a share as possible of trade in foreign markets. *Welt-politik* is not merely a passing phrase; it is a necessity of every great people desirous of maintaining a commanding position in the world. Within quite recent years we have been witnesses of its being forced, by the mere evolution of circumstances, upon the United States, although it had been a cardinal point of their policy to confine their interests to their own hemisphere, and not to meddle with the rest of the world. Now, when once a Protectionist nation touches foreign markets, it meets immediately with world-wide competition; and if it is to secure an important position in them for its produce or manufacture, that competition will have no less stimulating and beneficial an effect upon its methods than if it were a Free Trade nation.

A third evil advanced as one to which Protection must expose us is that it would, by encouraging industries which could not exist without it, prevent the capital of the country from being employed in those industries for which it is best fitted. The assumption here is that if, by foreign competition, one industry, or a series of industries, be ruined, both capital and labour are so perfectly mobile that they will, perhaps at some inconvenience, but an inconvenience which will be slight in proportion to the ultimate increase of well-being to the nation at large, be turned to ‘something else,’ or a series of ‘somethings else,’ for which the country is

better fitted. It will be shown in the next chapter that the agreeable optimism of this assumption, which has already received allusion (pp. 75, 142, and 143 ; see also p. 200), is not well founded. A second assumption is also implied, namely, that as compared with other countries, every country—in our special case the United Kingdom—must have some natural or acquired advantages, which, under Protection, would not be turned to the best account. The theory formed of the two assumptions here set forth, and strongly insisted on by our Free Traders, is one more instance, in addition to others which might be cited, of how far this section, at any rate, of political economy is from being a 'science' founded, as Lord Farrer supposed, on immutable principles as demonstrably true as the geometry of Euclid.*

So far as the phenomena of international trade are concerned, theory is bound to be, at any rate to a great extent, inductive ; it must be based largely on observation and experience, and its previsions cannot extend further than the known conditions on which they are based. Now, when the theory of the mobility of capital and labour was enounced, and, later, apparently definitely established, the conditions were such as to support it absolutely in so far as England was concerned ; and, as I have previously pointed out, practical application of the theory showed it to rest on what, at the time of England's growth from systematic

* Professor Sidgwick points out in the opening chapter of his 'Principles' how, after having 'risen from a state of controversy on fundamental principles and method into that of an apparently established science,' Political Economy had, when the concluding quarter of the nineteenth century began, 'returned to the condition in which it was in the second quarter, and that McCulloch's melancholy admission that the "differences which had existed among the most eminent of its professors had proved exceedingly unfavourable to its progress, and have generated a disposition to distrust its best established conclusions," was again only too applicable.'

Protection to systematic Free Trade, was a solid rock of economic truth.

But the extraordinary advantages, natural or acquired, which, in comparison with other nations, England then possessed, and of which the solid rock was composed, having almost, if not quite, disappeared, the rock has been disintegrated, and the theory may now be regarded as founded chiefly upon sand. I am, of course, assuming that the maintenance of the nation as a nation is admitted to be a matter of primordial importance. If we had reached that far-off millennium time, 'when all nations shall have become one nation, and their peoples all alike friends and brothers,' my argument would be very much weakened, although even then there are cases in which Protection would, theoretically, be of advantage.* I fear, however, it must be admitted that such a millennium is, indeed, so 'far off' as to be, for other millenniums to come, without the range of practical politics, and that during many ages we must continue to regard international trade as submitted in at least an equal degree to the necessities of politics, in the largest national sense of the term, as to the laws of pure economics.

* Cf. Professor Sidgwick, *op. cit.*, pp. 488-491.

CHAPTER XVII

THE MOBILITY OF CAPITAL AND LABOUR

The above reasoning largely admitted by leading modern economists—Professor Sidgwick on possible economic effect on nation from cheap foreign commodities—Industrial advancement of England increases this objection—As does fact that her competitors are not Free Trade countries—Contradiction of Professor Bastable on this point—Dr. J. Beattie Crozier on effect on international trade of industrial 'giant capitals' in foreign countries—Rejoinder to usual answers to this danger—Professor Nicholson's theoretic objections to 'something else' theory—Professor Ashley on decreased mobility of capital—Professor Nicholson on migration of capital and labour—Main differences between these authorities and advocates of fiscal change.

I MUST now point out that what I have above written, although strenuously denied by the modern superficial Free Trader with his usual air of pontifical orthodoxy, is largely admitted by more than one of the leaders of modern English economic thought. In the first place, I will turn once more to Professor Sidgwick. 'It is often assumed,' he says (*op. cit.*, p. 495), 'expressly or tacitly, that when a class in a given nation can obtain any kind of commodities cheaper through foreign trade, the nation, as a whole, must be benefited by their so obtaining it. What is overlooked is the possibility that the portion of the nation from which employment is withdrawn by the change cannot be employed *within their own country* without a loss of utility on the whole greater than the gain from the cheaper foreign supply of the commodities they were producing before the change. I do

not think this result at all a probable one in the case of a country as large and as industrially advanced as England. But I think it must be admitted in any theoretic treatment of the subject that, in order to realize the economic advantage obtainable by Free Trade between two countries, a displacement of labour and capital out of one of the countries may be necessary, so that the *aggregate* wealth of the persons living *in one of the countries* may be reduced by the change.' After giving an illustration of his meaning he continues: 'I think that the alarm has usually been without much practical justification; but I think it ought to be met not by a fallacious general demonstration that the result feared cannot happen, but by a careful exposition of the reasons why it is not likely to happen in any particular case to an extent that ought to influence a statesman's action.'

This admission coming from so cautious and eminent authority is, in itself, noteworthy enough. I may, however, be allowed to make one or two remarks upon the safeguards with which it is surrounded. It may be observed, in the first place, that the very fact that England is already so 'industrially advanced' instead of lightening the theoretical objection to Free Trade must surely increase its weight. It means that, even when Professor Sidgwick was writing, and still more after a further nearly twenty years' development, every branch of production was so equipped and organized that it left but little room for a transfer of further capital and labour from some other branch to itself. If the industries of a country be not already highly advanced, there would clearly remain 'something else,' or more than one 'something else,' to which displaced labour and capital might turn. But when this is not the case, the result must be increasing difficulty and loss when, by stress of foreign competition, some industry finds itself obliged to 'go under.' This, indeed, is one of the most important questions into which modern England should earnestly and impartially inquire.

At the time when Professor Sidgwick wrote England was still *facile princeps* in her manufacturing industries; she has now already been passed by the United States, and can keep scarcely level with Germany; it would seem, moreover, that the 'not at all probable case' now not infrequently occurs, and that it is likely to occur, in the future, more and more.

It is not as if England were competing with other Free-Trade countries, and I think it may certainly be advanced with safety that this fact increases the tendency to transfer of capital and labour noted (theoretically) by Professor Sidgwick. From the point of view of orthodox economic theory one would naturally expect that the transfer would take place from the protected to the Free Trade country, because, as Professor Bastable points out in his 'Theory of International Trade' (chap. x.), increase in cost of living is not, for an energetic and prudent man, an incitement to remain in a country; but since it is that to which Protection tends, says Professor Bastable, we can affirm without hesitation that the fear of depopulation on account of Free Trade is altogether chimerical.

But Protection has methods of its own which act in defiance of all abstract economics; and with these methods the leading exponents of economic thought have not, so far as I am aware, attempted to deal. Let us consider, for instance, the action of the Trusts of the United States, as picturesquely described by Dr. J. Beattie Crozier ('How to Ruin a Free Trade Nation,' *Fortnightly Review*, July, 1902): '... Just,' he says, 'as a cannon ball of sufficient size will demolish a fortress which would be impregnable to the assaults of a number of rifle bullets, although in the aggregate they were equal in weight of metal to that ball, so an amount of capital concentrated and wielded by a single hand will break down industrial defences which no equal amount of capital dispersed in small amounts among a

number of isolated and independent capitalists can touch.' Especially this is the case, he affirms, when the 'giant capitals' are 'brought to bear on a Free Trade nation like England, whose capitalists, still more or less isolated and unrelated, can be bought or sold for money without infringing any of the current conceptions of commercial honour, and can be pitted against each other or caught at angles where they can be isolated, detached, and defeated in detail, as in the tactics of Buonaparte in war; and more especially so where, with open ports and no protective defences anywhere, the enemy is invited to step in and freely choose his own ground and points of vantage for the attack. It is a question only of capital *enough*. . . .' He takes as an illustration the action of sugar bounties on the sugar trade, and he points out, with a good deal of force, that although this was a minor industry, and the loss was compensated in other ways, the principle of how to ruin a trade lay in it, while the action of bounties and of trusts is similar in effect, and, as a matter of fact, similarly organized.

Now, theoretically, I think it must be admitted that in this manner one industry after another of a Free Trade country might be ruined by one or more Protectionist countries. The obvious reply is that no capital, however large, can afford to work at a permanent loss, and that matters would thus ultimately right themselves. But the loss need not be, and would not be, permanent, and in any case need not be absolute at any time, since the profits in the home markets might more than counterbalance the losses in the foreign markets. It is perfectly true that the home consumer might suffer, although, owing to the immense turnover, not so much as is generally supposed.* But if the home consumer does not complain, who is to interfere? In such a case as this what are the agents of production in the Free Trade country to do? It would seem that certainly they

* *Vide infra*, p. 194.

must emigrate from the Free Trade to the Protectionist country or starve, and that if economic equilibrium is not rapidly established, the Free Trade country must go to the wall.

A further reply to this point has been attempted as follows: Let it be admitted, it is said, that goods are sent us by the foreigner under cost price, and that his object in so doing is to ruin our manufactures, so that, having destroyed them, he may ultimately control the market, and, by raising prices, reap a rich harvest of profit. The true safeguard for this, it is continued, is Free Trade, because, when the competitor comes to the point of raising his prices, he must, our ports being free, inevitably find himself undersold, and thus will have had all his pains for less than nothing. There is a shallowness, or perhaps rather a narrowness, of thought here, which seems to pervade modern advocates of free imports. During the period in which our manufacturers are being undersold how are they to live? They would struggle on, no doubt, as long as they could at a loss, but in time—and the time would be sufficiently long if, as Dr. Crozier points out, *enough* capital be brought to bear against them—they *must* ‘shut down.’ Of what avail will our free imports be to us then? Capital will have been destroyed, or will have shifted to other countries, labour will have emigrated, and the nation have fallen for ever from its splendid position to that of a third-class Power. It must be admitted that if, after that result has occurred, the system of free imports be still continued, the Free Trade argument, so far as ‘cheapness’ is concerned, might be true; but a ‘cheapness’ which costs a nation its existence as a great Power is immeasurably dear.

It might be, and, in fact, it is, further argued that if this extreme case came to pass, the conqueror would still have gained nothing, since its best customer, the United Kingdom, would have disappeared. This, also, is a *non*

sequitur. The fall of a nation from great commercial supremacy need not—and, indeed, if historical precedent be studied it may safely be asserted that it would not—decrease the general demand of the world at all: custom would merely be transferred elsewhere, and as the one nation fell others would rise to take its place.* The Italian Republics, the Hansards, Spain, Holland, have each in their turn proved this to be true; the modern conquering commercial State need no more hesitate to compass the effacement of a rival than did the conquering commercial state at previous periods of the world's history.

I think I may claim some support on this matter from Professor Nicholson, although I must hasten to say that, if I properly understand him, he does not, on the whole (chiefly on account of the 'negative argument'), abandon the Free Trade position, in spite of admitted theoretical exceptions. His admissions, however, are important. In regard to the point which I have now specially under discussion, he remarks that it may be objected to the 'something else' theory that 'every industry requires a certain amount of specialized capital and peculiar skill and training' ('Principles of Political Economy,' vol. iii., p. 359), while it 'may be argued that temporary protective duties should be enforced when an old industry is suddenly attacked by foreign competition.'

Professor Nicholson believes that the difficulty of transference of capital is likely to be exaggerated, and points out that the argument for vested interests may be turned round. I do not think this belief well founded, and in this I again claim support of high authority. Professor Ashley, in his address to the annual meeting of the British Economic Association on March 22, 1899, made the following observations:

'Time was,' he says, 'that when the profits were out the

* *Vide infra*, p. 198.

business would die. But undertakings employing a large amount of fixed capital, of which the value would be seriously impaired, or even destroyed, by a period of disuse, do not now go out of the field of competition when they cease to obtain what the economists used to call "the average rate of profit." They usually remain in operation for years after, and reduce their charges, if necessary, to obtain business, so long as they earn anything, however little, above prime cost, and obtain any contribution whatever towards their fixed charges. And thus competition becomes more and more acute; the agony of rate wars and "cut prices" more protracted, the ill-effects more widespread, and the recovery more slow.*

Again, in reply to the cognate assumption that 'the capital and labour of a country must remain within its own borders,' Professor Nicholson observes (in this matter in agreement with Dr. Crozier) that 'foreign bounties might destroy some important home industry which, even after the removal of the bounties, the country might never recover. More generally a Free Trade country placed in the midst of a group of Protectionist countries is liable to disturbances and attacks which may vitally injure its industries' (*op. et loc. cit.*, p. 360); and a little further on (p. 362), '... the commercial rivalry of nations is as strong as ever, and the land would fare ill from which the capital and labour migrated, though the rest of the world might gain. There is not only the possibility of a "something else," but of a "somewhere else" to be considered, and herein lies the danger of organized attacks by foreign competitors.'

I do not think any fair advocates of a change in our fiscal system would go further than this, and it would seem that the main differences between them and such high authorities as I have quoted are that, while the former consider the objections stated to be practical and present, the

* *Economic Journal*, vol. ix., p. 167.

latter believe them to be theoretical, or present to so small an extent as to be negligible; and, further, that no Government could be found of sufficient wisdom and knowledge to apply Protection only to the exactly required (and therefore beneficial) extent, beyond which it might become harmful. In short, there are evils in both Free Imports and Protection, those in the former being largely originated by Protection in other countries; but the evils of Protection, they say, outweigh those of Free Imports.

CHAPTER XVIII

FREE TRADE EXAGGERATIONS

Discussion of conclusion that prosperity of England is due to Free Trade—Other causes previously indicated—Further observations on improvement of means of communication—Mechanical invention—Its utility largely dependent on improved locomotion—Economic history of any country chiefly a history of means of transport—Modern instance of result of lack of such means—Effect of railway development in England; On United States; enhancement of this owing to steamships and electric telegraph.

BEFORE, however, proceeding to discuss this conclusion, I must examine the further general objections raised to any change of fiscal policy, of which the next in order is that the prosperity of the United Kingdom during the last half of the nineteenth century was due to Free Trade.

I am at the opposite pole from denying that to Free Trade was due much of that prosperity; indeed, as I have already stated more than once, the natural and acquired advantages of England as compared with other nations, when she practically freed herself from Protection, were such that the application of the theory of international trade found in her the most brilliant object-lesson. True, however, as this was, it is only part of the truth. There were other causes simultaneously at work which, as I have attempted to show, played a large part in building up our splendid national fortune, chief among which were the prolonged period of war among various other nations, and the transformation of means of locomotion. The first of these

two causes I have already insisted upon sufficiently ; I will venture to add a little here to the brief observations which I made upon the second. It seems to me that it bears strongly—indeed, chiefly—upon a fact which is a conclusive refutation of the ordinary Free Trade exaggeration that at the root of our national prosperity lies Free Trade. This fact is the extraordinary simultaneous prosperity of every other nation in the world possessed of high character, energy, and enterprise, although those nations are Protectionist.

There is here another most important element to be taken into account in the world's prosperity, namely, the element of mechanical invention. The marvellous impulse which this has given in every direction of human enterprise and productivity, whether material or intellectual, in all civilized races ; the cheapening and fertilization of every productive process ; the multiplying of exchangeable commodities which ensued, need have no demonstration.

What is not so clear, or perhaps what is usually forgotten, is that without improved locomotion the best invention must have lost the greater part of its utility. A perfectly organized factory, equipped with the most efficient labour-saving machinery, and turning out the very best quality, say, of woollen goods, would be practically useless if those goods could only be dragged to the nearest market by horses and carts over hundreds of miles of bad, unmetalled roads ; their price would be so enhanced by the cost of transport that they would be barely saleable at the end of their journey. It will, I think, be admitted that no industry can flourish without cheap labour and cheap raw materials ; and neither raw materials nor labour, since cheap labour requires cheap food, can be cheap without cheap transport unless at rarely favoured spots on the earth's surface, if such there be, where both food and raw materials are found together in practically limitless quantities.

Thus, if the history of the development of any country

be considered, it will be found largely a history of means of transport, as will the trade relations of all countries with one another. Transport by water has always been cheaper than transport by land,—indeed, before the invention of railways it was the only possible cheap transport. On looking back, then, we shall accordingly find that there were no great towns except those on the sea-coast or on the banks of great navigable rivers, while transport by sea was so precarious and lengthy that the development of even the most advantageously placed towns was exceedingly slow. Inland towns drew their supplies chiefly from the agricultural districts around them; but the area on which they could draw was small, so that the more distant agricultural districts remained in a state of hopeless unprogressiveness. When canals were constructed, the possible areas of supply were enlarged, but only to a limited extent.

I might say, in passing, that I have myself seen instances of the conditions which prevailed in medieval times, when means of transport were practically non-existent. One district might then be suffering from famine, while another, not at any great distance, might be in abundance and plenty, but owing to the crushing expense of transport no relief could be conveyed to those who were starving. I have known districts in Turkey where, at the end of the nineteenth century, corn was actually being burnt as fuel, when at precisely the same moment other districts in no remote part of the country were famine-stricken. In the same way, not half a century ago, wheat was burnt as fuel in the western territories of the United States because it was too expensive to have it conveyed to market.

Follow now what have been the consequences of railways and steamships. England was the first country to adopt railway-building on a large scale. Railways were, of course, built in England before the repeal of the Corn Laws, but their great development really commenced

at about that time, and was continued through the years immediately succeeding at a much more rapid rate than in foreign countries, especially the United States. The result was that the internal trade of England progressed enormously: raw materials and food supplies were brought at a relatively nominal cost to the centres where they were required, and every industry, including agriculture, flourished exceedingly. Thus Cobden's prediction that the agricultural classes would not suffer but benefit from the repeal, and that they had nothing to fear owing to the protection of distance, was actually fulfilled for something like a quarter of a century. During that time our foreign supplies were drawn chiefly from the Danube States and Russia, and, even as is the case now with our great colonies, no particularly great future was foreseen for the United States. But after the Civil War English capital, finding no further vast field for profitable employment at home, turned westwards, and railways in the States grew apace, with the double result of a huge stimulus to our iron and steel trades,—indeed, to all our manufacturing industries,—and the gradual opening up of the immense fertile wheat areas of the Western States. The effect was increased by the great emigration from Europe to America, and by the replacement of sail by steam navigation and the development of the electric telegraph.

How immense the effect has been of the replacement of wind by steam power, both in rapidity of transit, certainty of departure and arrival, and reduction of cost of freight, seems very frequently to be lost sight of. It may be asserted with the greatest confidence that it has been a most important incentive to the development of railways all over the world. Had sea-ways remained as precarious and uncertain as in the old days of sailing-ships, there could have been, Free Trade or no Free Trade, but comparatively small international commerce; and the need for the concentration

of great railway systems at sea-ports would have been felt but in a slight degree. When, however, the producer knows that so soon as his produce arrives at the sea-coast a steamship will be ready to transport it to any country in the world swiftly and surely, and within a few hours, at most, of the estimated time, his demand for land transport continually increases until his utmost capacity is satisfied. Railways must therefore be built to satisfy him. In the same way, by means of the electric telegraph, all uncertainty as to the terms upon which commercial transactions are undertaken among different parts of the world has disappeared; the merchant or the financier can buy or sell at practically the same moment in, for instance, London, New York, Pekin, and Sydney, with a perfect knowledge of prices in each place.

Thus from 1876 onwards it may be said that the protection of distance was gradually lost until it altogether ceased to exist, while the population in the States spread ever further westwards, great industrial centres springing up everywhere, and agricultural products always increasing and pouring to the East. When the Americans had no further need for English capital, it turned itself to Argentina; that country, in its turn, has been opened up in a wonderful manner, and alike pours its food supplies into us. I have taken as an example only England and these great Western countries as striking illustrations of the development of both internal and external trade, consequent upon the vast improvement in means of communication. But in any country which has taken advantage of these, the same result will be found. Means of communication (what Mr. Gladstone called the 'Liberation of Intercourse') have been the great leveller, the great democratizer, so to speak, of nations. We have flourished under Free Trade, others equally under Protection—the theory that Free Trade has done everything for us cannot possibly stand.

CHAPTER XIX

CHEAPNESS AND THE CONSUMER

Discussion of the assertion that 'cheapness to the consumer ensures the prosperity of all'—What is cheapness?—Professor Marshall's definition of price—False cheapness—Professor Nicholson on possible disutility of cheapness—Further illustrations of disutility of cheap imports—Of bounty-fed imports—Mr. Gladstone thereon—Definition of cheapness—Do prices of imports correspond to this?—M. Yves Guyot on bounties—Similarity of trusts and kartels to bounties—Foreign consumer able to support system by *relatively* high prices at home—Artificial lowness of price need not be great—Final consideration of cheapness to the consumer—Necessity of avoidance of such abstractions as 'economic nation'—And of common error of distinguishing between consumers and producers as being two separate classes—Cheapness useless if production insufficient—Inadequacy of two replies generally adduced to this—(1) That England must continue to export manufactures to pay for imports—(2) That foreign nations would not ruin England by competition for fear of losing best customer—Is Free Trade or Protection best for England?—Conclusion economically sound if national existence an element—Mr. J. A. Hobson thereon—Theory of infinite 'somethings else' inadmissible—Professor Nicholson errs in believing that List can be cited against modern English Protectionists.

THE next objection to be considered is that only under a system of free imports can the consumers of this country obtain the commodities they require at the maximum of cheapness, while cheapness to the consumer ensures the prosperity of all.

The question which first arises upon this matter is, What

is cheapness? In order to arrive at the answer we must first agree upon a definition of price, and we cannot, I think, do better than adopt that of Professor Marshall ('Principles of Economics,' p. 130): 'The value in exchange of an economic good,' he says, 'is measured by its price—that is, the sum of money for which it will exchange.' While agreeing with him that this phrase conceals some difficulties, we may, I think, also agree to take it in its popular sense as sufficiently clear; 'thus,' he continues, 'the price of anything will be taken as representative of its exchange value relatively to things in general, or, in other words, of its general purchasing power.'

To begin with, then, a thing is cheap when its exchange value relative to things in general is low; but this clearly will not take us very far. There is a popular phrase that a given thing 'would be dear at any price,' involving an important economic limitation of cheapness, which I will venture to convey by a homely illustration. Suppose a purchaser of a watch buys for a shilling or two an American article which, after a few futile and exasperating trials, ceases action altogether. Clearly when bought its 'exchange value relatively to things in general was low'; but when tried, owing to its complete lack of utility, it was found that its exchange value was *nil*, and that its primary cheapness was, in reality, purely imaginary. Utility, therefore, is an element of the first importance in cheapness. Again, as Professor Nicholson points out ('Principles of Political Economy,' vol. iii., pp. 15, 16), giving, among other illustrations, cheap clothes turned out by sweated industries, the 'utility of extra cheapness may be purchased at an enormous real cost (or disutility).'

Later on, in the same volume (p. 226) he observes that 'consumers in general are apt to be much too influenced by immediate cheapness. The demand for cheapness naturally tends to adulteration and deterioration of quality, just as

the demand by the wealthy for expensive goods that will show off their wealth leads also to deterioration of art'—a consideration to which he returns in a section entitled 'Free Trade and the Consumer' (vol. iii., book v., chapter xiv., section 2). 'Present cheapness,' he there says, 'may be sacrificed to ultimate dearness, as in the rapid depletion of peculiar natural resources (*e.g.*, coal and iron, and even the soil itself) . . . cheapness also may lead to more than proportionate degradation in quality, and in brief there are all the cases to be considered in which the consumer is not the best judge of his own interests.' Lest I should be once more suspected of attempting to invoke the authority of Professor Nicholson unfairly, let me again hasten to add that he admits these only as theoretical exceptions of relatively small importance, which do not lead him to abandon the position that Free Trade is generally advantageous. For my own part, I should like to give one or two pertinent illustrations of the occasional disutility of cheap imports. That the people, for instance, should feed on starch, as it has been already mentioned that they do in the case of the cheap American summer wheats, is clearly false cheapness, as is the substitution for real Demerara sugar of an ingenious but unwholesome chemical compound imported from Germany.

Again, bounty-fed imports, although I am aware that this is hotly contested, show a balance of disutility to this country. Mr. Gladstone, in a speech quoted recently by Mr. Bonar Law in the House of Commons,* explained what this disutility is in a few pregnant words 'I cannot,' he said, 'regard with favour any cheapness which has the effect of crippling and distressing the capitalists and workmen engaged in any lawful British industry.' If we interpret the word 'lawful' as 'not artificially encouraged,' there are, I imagine, few who would object to this dictum; it will be

* Debate in the House of Commons, July 28, 1903.

found, in any case, to agree essentially with the theoretical objection to foreign bounties noted by Professor Nicholson.* A further element, therefore, of cheapness is that it should not depend on artificial stimulus, and thus destroy capital and ruin labour which, did that stimulus not exist, would continue to be profitably employed. 'Cheapness,' in its proper sense, might now, from what has above been written, be thus defined: A commodity is cheap when it combines a high utility with a low exchange value relatively to things in general (or a low price), no artificial action being interposed to affect that exchange value (or price). More shortly expressed, we may say that a thing is cheap when it possesses high utility and when its natural price is low. The term 'natural' price again involves some difficulties; but, as before, we shall not go far wrong in taking the words in their popular sense.

How, then, do the prices of commodities purchased by this country from foreign countries respond to the definition of cheapness at which we have arrived? I think we may accurately say that in scarcely any case do they completely respond to it, while in some cases they flagrantly infringe it. I have already given some instances of departure from utility, and many others could be adduced, such as poor cutlery, cloths and stuffs little better than shoddy, inferior boots and shoes, and so forth. Let us, however, for the sake of argument, admit the utility, and discuss the price. The case against bounties is clear. M. Yves Guyot, a most eminent foreign economic descendant of Bastiat, fell not long ago upon the Cobden Club with a whip of scorpions, and flagellated it for its advocacy of foreign bounties as an advantage to British trade—'aggressive Protectionism,' he styled them, as, indeed, they most certainly are. But this bounty system, translated into the forms of trusts and kartels, or even into the simple form of relatively

* *Vide supra*, p. 183.

high prices to the home consumer without combination, and artificially low prices in foreign markets, pervades the whole system of external trade of modern Protectionist countries.

The usual reply to this is, as I have already observed, that such a system cannot possibly endure long, the home consumer turning, at last, like the proverbial crushed worm, and it being impossible to maintain foreign trade at a permanent loss. I have already attempted some reply to this;* here I would add that it is, at best, but a superficial interpretation of modern trade conditions. Owing to the enormous change which has taken place in these, due to 'liberation of intercourse' and fertility of invention; owing to the competition, both internal and external, which has ensued, and the immense increase of output necessary to satisfy incomparably greater home markets, and to gain a share in all neutral markets, (among which those of the United Kingdom must be included), the prices charged to the home consumer are, compared even with what they were but a few years ago, relatively low, and he is able to support the tax imposed on him in favour of foreign trade without difficulty. On the other hand, it is not necessary that the artificial lowness in the price of exports should be great; it suffices to beat the foreign competitor by a small margin, and ultimately he is bound to disappear. It might be asked here why, if that be so, our industries have not already suffered to a much greater extent than they have, or that we manage to penetrate into the markets of our protected rivals at all. The answer to this is clearly that, not only does their home supply not keep pace with their home demand, but that it is seriously retarded by the struggle for foreign markets; that, moreover, acquired habits and customs having a very conservative influence upon trade, and our competitive capacity being very great, we are only being ousted gradually (but none the less surely) from our preponderating position. It

* *Vide supra*, p. 180.

seems to me most significant that, in spite of the rapid increase of population in those rival countries, our exports to them remain almost stagnant, especially in view of the fact that these exports form but a small fraction of their supply.

This leads me finally to the consideration of the aphorism that 'cheapness to the consumer ensures prosperity to all.' We come here immediately upon that economic doctrine which, stated in its popular form, is as follows: 'Take care of the consumers, and the producers will take care of themselves.' In the consideration of internal national economy this may be broadly taken as true. But we must carefully avoid the fascination of such abstract conceptions as the 'Economic Nation'—the nation within which the transference of labour and capital is free, but over the borders of which those agents cannot flow.* To propound and inculcate the lessons of scientific political economy, such abstractions are admissible. We, however, are dealing not with economic abstractions but with concrete facts.† In the case of an 'Economic Nation' no doubt an industry may be driven from one district to another, and, while the first district might be ruined, the country as a whole would gain. But the question altogether changes when an industry is driven from one *country* to another. 'Everyone must admit,' says Professor Nicholson (*op. et loc. cit.*, p. 326), 'that the immediate effect of foreign competition may be to injure some great industry, and it cannot be taken for granted that the greater cheapness of the foreign product is always more than sufficient compensation.' The fact that 30,000,000 people obtain some article cheaper may be of small importance relatively to the fact of 1,000,000 having lost their employment and being reduced to beggary. The whole

* Cf. Nicholson, 'Principles of Political Economy,' book iii., chap. xxvii., section 1.

† Cf. List, 'The National System of Political Economy' (translation), p. 122 and chap. xv.

world might possibly gain, but the country itself would permanently lose.

A few lines further on he states the case with still greater force: 'The greater the development of foreign trade and the more closely nations are knit together by reciprocal commercial interests, so much the more nearly do the conditions of international trade approach those of trade within any country. The differences are always differences of degree only. There can, however, be no doubt—and, indeed, this is the fundamental assumption in the theory of internal as contrasted with external trade—that any particular industry may be entirely driven from one district to another, and although from the national point of view there may be a gain, there is evidently a loss to the first district considered as an economic unit, supposing, of course, that there is no effective substitution of another industry. It would be easy to give examples of the decay of towns and cities and of large tracts of country whilst the rest of a nation flourishes. In precisely the same way a nation may suffer—though the world may gain—by the transference to another nation of any great staple industry. Capital and labour may gradually be exported or the industry may pine and dwindle away under adverse conditions, the result being that at the end of a certain period there will be within the country less labour and capital, and possibly also less consuming power per unit of population.'

We must also get rid of the perfectly false idea which has arisen from the separate treatment, for convenience' sake, of consumption and production in economic text-books. It must never be forgotten that the incomes, or means of payment, of consumers are at the same time generally the earnings of producers, with the exception of the idle rich, and even these are often producers in the sense that sleeping partners in an industrial concern may be said to be so. If the earnings of producers fall, their capacity as consumers

must inevitably fall in the same proportion. 'L'homme qui veut acheter,' rightly said Monsieur J. B. Say (*Cours complet d'Économie politique*, vol. i., p. 341, Guillaumin edition), 'doit commencer par vendre, et il ne peut vendre que ce qu'il a produit, ou ce qu'on a produit pour lui. . . . De toutes manières c'est avec des produits que nous achetons ce que d'autres ont produit.' By keeping firm hold of this truth the fallacy of applying to external trade a doctrine which is correct only in regard to internal trade will be easily avoided. If our products can be undersold by foreign nations in our own markets, the extra cheapness will ultimately, and soon, be of no avail to our consumers, for, as producers themselves, their earnings, or means of payment, will have fallen away from them, and the nation must be ruined.

Two answers are generally brought forward to this, both of which seem to me quite astonishing in their hopeless want of economic insight. The first is that the hypothesis is self-destructive, since England, not being a gold-mining country, payment in gold for imports is impossible, and we *must* therefore continue to export—*i.e.*, to produce—in order to pay for our imports. But this is an absolute *petitio principii*. The supposition being that we cannot pay, our imports must practically cease, and the mass of our working population must emigrate or starve. In the case of a country with such vast accumulations of capital as England, this ultimate result will be reached gradually; we need not imagine such extravagances as the whole population stampeding to emigrant ships in a single night. But ten years, or a whole generation, form only a short time in a nation's history. Mill's contention that equilibrium will be restored by the export of gold, and the consequent fall of prices, is true only in the strictly narrow sense of a nation which has nothing wherewith to pay except exports of produce and gold.* It is quite inapplicable to England with

* See also Professor Nicholson, *loc. cit.*, vol. ii., p. 320.

the number of other means of payment (in a great variety of forms) which she possesses besides these; long before we came to such an export of gold as would entail a fall in prices our manufacturing industries would have been ruined, unless, indeed, British workmen would submit to such a reduction of wages as would allow the struggle to be maintained; but in that case clearly 'cheapness to the consumer' would not mean prosperity.

The second answer is that foreign nations would never proceed to such extremities against us, since the destruction of Great Britain as a commercial power would be the destruction of their best customer. The idea underlying this is that if Great Britain, as a great manufacturing nation, were to disappear, the total demand of the world would decrease by the amount, or approximately the amount, of her present demand. As a matter of fact, there is no reason why it should decrease by one jot or tittle. There would simply have been the transfer of a mass of her population, and the larger part of her industries, elsewhere; the *locus* of her demand and of her productive power, and therefore of her purchasing power, would have been moved to some other nation or nations. It, or they, would have gained what she had lost; she might lose everything, the world as a whole nothing. Take the example of two great competing commercial establishments who enter upon a war of cutting prices. The stronger, with possibly a considerable temporary sacrifice, will, in the end, absolutely ruin the weaker. Does that imply a decrease of the public demand? By no means; it implies simply the transfer of the entire custom to the conqueror. In this lies the whole *rationale* of competition. There can be no more dangerous fallacy in matters of international trade, especially in view of the advanced industrial development of other nations, than that resting on the dogma that, inevitably, 'cheapness to the consumer means prosperity to all.'

I may now turn back to inquire which of the two, Free Trade or Protection, presents the greater evils, a point which has to be considered, as I have above insisted, purely from the national point of view. We must disentangle ourselves from the notion that—apart from what is, and for countless ages must remain, an economic abstraction—viz., that international trade should be treated on the basis of the whole world being inhabited by a single nation—Free Trade contains some principles of immutable scientific truth. Free Trade, like Protection, is simply a policy—a '*pis aller* policy,' says Professor Davidson.

Which of the two policies may be the most advantageous for a given nation may be unhesitatingly declared to depend on the industrial position which that nation holds in regard to other nations. It is admitted by all economists that, whether in volume or in value, it is the home trade which is of incomparably greater importance to an industrial nation. If, then, a nation finds its home markets threatened—in other words, if other nations commence to undersell its staple industries in its home markets, and there are distinct signs of its capital and labour transferring themselves abroad—then it must revert to Customs duties to serve, as Chaptal said,* as the bulwarks of its manufacturing industry. As a matter of theory, I conceive that what I have above written would not be questioned by any economist who attaches importance to the preservation of national wealth and strength, as distinct from the question of how the world, as a whole, would benefit most. Mr. J. A. Hobson, no mean authority on economics, expresses himself in regard to this as follows:†

‘Under Free Trade there can be no guarantee for the maintenance, on any given area—to wit, Great Britain—of

* Cf. List, ‘The National System of Political Economy’ (translation), p. 375.

Letter to the *Speaker*, July 5, 1902

any industry or any industrial population. . . . I would like to see it clearly recognised by all who think it of paramount importance that industry and population should be kept inside the limits of the particular political area which was fortunate enough to be their birth-place, that they must be prepared to resort to a Protection amounting to prohibition in order to prevent a flow of capital and labour to foreign parts.'

There is, in theory, no difference of opinion in regard to this, if the assumption of 'somethings else' could be neglected. But it is just this assumption that lies, really, at the root of the scholastic theory of international trade; for that theory it is a postulate that the series of 'somethings else' to which, *within* any country, capital and labour displaced by foreign competition from any industry may turn, is infinite. As a matter of practice, not of theory, the postulate is an absurdity, and it is difficult to understand how any careful observer of even our present trade conditions can admit it. When it is considered in what close relation, for an industrial country like England, the production and consumption of pig-iron must stand to almost all industries, it is surely most significant that that production is virtually stagnant, although last year the United States took from us some 504,000 tons (as against 45,000 tons in each of the years 1901 and 1902), while at the same time our imports of manufactures are increasing by millions a year.*

There is a passage in List's 'National System of Political Economy' which elicited from Professor Nicholson what appears to be a strangely inapposite comment. 'It is a very common clever device,' wrote List,† 'that when any-

* The average for 1890-1894 was £74,809,000.

" " 1895-1899 was £84,100,000.

They were for 1899 £91,311,000.

" " 1902 £99,050,000.

Op. cit. (translation), p. 368.

one has attained the summit of greatness, he kicks away the ladder by which he has climbed up, in order to deprive others of the means of climbing up after him. In this lies the secret of the cosmopolitical doctrine of Adam Smith. Any nation which, by means of Protective duties and restrictions on navigation, has raised her manufacturing power to such a degree of development that no other nation can sustain free competition with her, can do nothing wiser than to throw away those ladders of her greatness, to preach to other nations the benefits of Free Trade, and to declare in penitent tones that she has hitherto wandered in the paths of error, and has now for the first time succeeded in discovering the truth.'

Upon this Professor Nicholson remarks that* 'no writer has presented the case for Protection with such vigour and success [as List], and what has been abandoned by so eminent a supporter of Protection is not likely to receive much support from other economists.' It is quite certain that hearty agreement may be expressed with the above proposition as stated by List; but it rests on the assumption that 'no other nation can sustain free competition' with the fortunate nation which has 'thrown away those ladders of her greatness' (namely, Protection) by which she climbed to her supremacy. The inference is clear that if other nations reach the same heights, or, in other words, *can* sustain free competition with her, she must bring the ladders into use again. This is precisely the contention of those who are now in favour of a change in our fiscal policy, and who, therefore, in contradiction to what Professor Nicholson seems to think, can invoke the authority of List—for what it is worth with economists of the 'orthodox' school—on their side.

* 'Principles of Political Economy,' vol. iii., book v., chap. xiv., § 6.

CHAPTER XX

HOW TRADE WOULD BE DISLOCATED

Above arguments greatly strengthened when applied to Imperial trade—Consideration of objection to 'dislocation' of foreign trade in favour of colonies—Does our external trade now flow in its natural channels?—Inferences already drawn from Board of Trade returns—Necessity of carrying inductive process some steps further—At this stage question of exports more especially treated—One advantage of paying for imports by exports—Observations on repayment of national capital and fallacies connected therewith—What is the good of exports?—Replies to Cobdenite assertions on value of imports—Mr. J. S. Mill on the direct advantage of imports as compared with exports—Mercantile theory right in regard to national being—Importance ascribed to export trade not an error—Five grounds for this in modern England—Consideration of Mill's statement that loss of export trade is always replaced by equal amount of home trade—Examination of trade returns bearing on this point—Equivalence of exports and imports—Condition of trade with Protected rivals—Effect on home markets—Importance of export trade to a manufacturing country—J. S. Mill on production on a large scale—Application of this to modern conditions—Mr. Andrew Carnegie on importance of home markets—Consideration of profits attendant on export trade—Present and direct profit—Indirect profit—Deferred profit.

ALL the above arguments gain enormously in strength when we consider the matter, not merely from the point of view of the United Kingdom only, but from that of the Empire taken as a whole. This consideration is so closely allied to the discussion of the next objection raised—viz., that 'our trade with foreign countries being three times that with the

colonies, it would be a mistake to dislocate the former in favour of the latter'—that it will be better to discuss the two together.

The first assumption made by those who indulge in the above argument is that our external trade is at present flowing in its natural channels, and that to bring to bear upon it any artificial pressure would be to dislocate it to its detriment. In order to observe whether this argument is supported by facts, and if so, whether these facts are such as to deter us from any change in our present system which might 'dislocate' our trade, or, in other words, cause it to flow more freely in some of the channels which it has already adopted, and possibly less freely in others, a careful examination and analysis of the trade returns for some years past is essential. This has already been attempted in Chapters V., VI., and VII. of the present work with a view, more particularly, to showing how important have been the changes in the relative industrial positions of some other great commercial countries and our own, and how swiftly the great colonies have been advancing in wealth and power.

But, as has also been indicated, there are other lessons likewise to be learnt from those figures. I am well aware of the danger of the *post hoc ergo propter hoc* argument; but careful as we should be in regard to it, it need not so terrify us as to forbid all inductive reasoning whatever in connection with our Board of Trade returns. If, for instance, these show, as has been demonstrated, that, during a long period of war among some of our principal competitors, that period being characterized by vast improvements in sea and land transport, and by no advanced stage of industrial development on the part of those competitors, our export trade increased enormously, and we had the virtual monopoly of our home markets; if, on the other hand, they show that, since wars have ceased, since other countries have taken advantage of the improvement in means of transport, and

since they have advanced to our level in industrial development, our exports have remained stationary, and relatively to the growth of our population have actually decreased, while imports of foreign manufactures are increasing in volume at a considerable annual rate, or, in other words, that trade in our home markets is gradually slipping away from us, then the induction already made that Free Trade is not at the root of all our prosperity, and does not assure it in the face of the increasing competition of our rivals, must obviously be recognised as correct.

From this point, however, the inductive process must be carried some steps further. If the Board of Trade returns show that, in spite of an immense increase of population in our protected rivals, our exports to them are decreasing; that our imports of manufactures from them increasingly compete with our own staple industries; that our exports to 'neutral' markets are likewise declining, while those of our rivals are augmenting; and that our exports to the colonies are relatively increasing at a less rate than those from other countries, it may be induced: (1) That free imports of manufactures from our protected rivals are certainly not advantageous to the development of our manufacturing industries, and that we need not fear to discourage them: (2) that our system of Free Trade with 'neutral' markets is of no advantage to us as compared with our Protectionist rivals: (3) that gradually trade will fall away from the flag to the advantage of those same rivals: (4) and, finally, that if, therefore, we were to adopt measures which would encourage and increase our home and colonial trade, we should be large gainers thereby in our double capacity of producers and consumers, even if some detriment to our other external trade were to ensue.

I venture at this stage of the discussion to treat more especially of the question of exports, for whether we are, as a nation, living beyond our means—or, in other words, on

our capital—or not, it is abundantly clear that the balance of our foreign trade is certainly not settled by exports of our manufactures, nor are these, as the figures will show, especially in regard to our protected competitors, encouraged by that trade.

In passing, however, I wish to make one or two remarks on this point. Even if it be true that we are not over-spending, but that we are living on the interest of our forefathers' investments, still, it must be admitted that, under profitable conditions, it would be better for us, as a nation, to pay for imports by exports, since our capital invested abroad would then be bearing compound instead of simple interest, and the wealth of the nation consequently increasing. On the other hand, if we are living on the full interest, that is a fixed amount; and unless our exports increase, our national wealth, relatively to population, must decrease unless our population ceases to expand; in the latter case, with other great nations expanding all round us, we are still bound to lose our place in the world. As a matter of fact, however, there are indications that our immense excess of imports does partly represent repayment of capital.*

It has been urged that no man (and by parity of reasoning no nation) would be considered the poorer because his loans are being repaid to him.† It must be observed in regard to this curious argument that the nation is repaid almost, if not quite, entirely in consumable commodities, and it may well be questioned whether a creditor would consider himself to be any the better off were his debtors to effect the repayments of their loans from him by providing him with a series of dinners, or forcing upon him goods

* Cf. R. H. Palgrave, 'Bank Rates and the Money Market,' pp. 213-215; also paper read before the Institute of Bankers by Mr. Rozenraad, p. 18.

† Cf. article in the *Pilot* of July 18, 1903, by A. C. Pigou.

of their own, and not of his, choice. The perpetrators of solecisms such as these are probably those who, proud of that little economic learning which is a dangerous thing, cling with unreasoning faith to the earlier text-books with which they have been fed, and close their eyes to the great changes in the economic development of the world, and the lessons to be drawn from the recent history of other nations. Thus the fallacies or exaggerations of J. S. Mill and of his Ricardian predecessors persist, and we are still presented with theories, some of which were erroneous when stated, and some correct only as applied to the conditions existing at the time when they were elaborated. Perhaps in nothing is this more evident than in the persistence with which it is affirmed that capital displaced can always find other equally remunerative employment within its own country; that the 'underselling' of one country by another is impossible, because the flow of commodities from the underselling to the undersold country would raise prices in the former and lower them in the latter, and thus lead to an adjustment of international price-levels; that the only test of the advantage to a country in international trade lies in the amount of its imports, and that increasing imports must necessarily be good for a manufacturing country, since they must entail increasing exports of its manufactures.

These and other economic fallacies of the superficial orthodox school have already been dealt with to some extent in the foregoing pages; a further consideration of the fourth and last here enumerated leads to the discussion of the subjects propounded at the head of this section. As a preliminary, it might be asked, What is the good of exports at all? This question, indeed, is not infrequently put by disciples of the Cobden Club in various forms, among which, perhaps, the favourite is an attempt at a *reductio ad absurdum* as follows: 'If you object to declining exports and artificially cheap imports, you must logically

object to other nations making us a present of all that we need, which is absurd.' But, on the contrary, it is not at all absurd; even if it were possible for other nations to follow such a course, it is one that should be objected to most strenuously. If a people could be placed in the condition of existing without exertion of its own, it must be superseded and absorbed by those which are forced to be more energetic; gorged with slothfulness and luxury, it would die of mere torpidity.

It is not, however, useful to insist upon this point, since the suggested conditions are themselves absurd and impossible; the only 'present' which other nations would, or could, make us, is to supply us with commodities at little or no profit, or perhaps even at a slight loss, to themselves. In regard to this the Cobdenite loftily inquires why, again, 'if other nations are so foolish as to impoverish themselves in order to supply us more cheaply, we should raise any objection?'

This question might first be countered by another. Do Cobdenites 'seriously think,' as they so love to phrase it, that what is vulgarly termed the 'd——d fool argument,'—the argument that 'all men are fools who do not agree with me,'—is one which is to take effect through all eternity for their especial benefit? Have the American, the German, the French peoples shown themselves to be such fools as compared with us? If so, looking at the results of their foolishness, one cannot but wish that we could be clothed in a suit of it ourselves. Whether in consumption or production, in improved yield of income-tax or in savings-bank deposits, in railway statistics or postal statistics, or, indeed, any of those signs of increasing prosperity to which Free Traders point as showing our prosperity, the fools will be found in recent years to have done better than the wise.

Even, however, assuming that they really are foolish, and

that the captains of their great industries, attaching too great an importance to their export trade, have set themselves a task, in attempting to compete with us in our home markets, which must entail upon them so great an ultimate loss that they will, in the end, be forced to raise their prices, still the mischief inflicted upon us may far exceed the benefits conferred. Home industries may have been so dislocated, the capital and labour in them so ruined and disturbed, by artificially cheap competition, that, even when the pressure is withdrawn, it may prove to be impossible to re-establish them, at any rate on anything like the previous scale. Labour and capital removed to 'something,' and very probably to 'somewhere' else cannot again return to former employment and investment without further loss which both might be unable to face. Thus, whether or not other nations are foolish in 'making us presents,' it is the height of foolishness on our part to accept them with self-congratulation as profitable to us as the recipients, and to regard with indifference—nay, with pleasure—the fact that our exports to those nations are a diminishing quantity.

Mr. J. S. Mill, in his '*Principles of Political Economy*' (book iii., chapter xvii.), gives the strong lead on the direct advantage of imports as compared with exports, which modern Free Traders are still so delighted to follow. 'It [foreign commerce] thus obtains a more ample supply of the commodities it wants,' he says, 'for the same labour and capital, or the same supply for less labour and capital, leaving the surplus disposable to produce other things. The vulgar theory disregards this benefit, and deems the advantage to reside in the exports; as if not what a country obtains, but what it parts with, by its foreign trade, is supposed to constitute the gain to it. An extended market for its produce, an abundant consumption for its goods, a vent for its surplus, are the phrases by which it has been customary to designate the uses and recommendations of

commerce with foreign countries.' He considered this to be a 'surviving relic of the mercantile theory,' and proceeded to explain that foreign commerce is of no use to a country except to procure commodities which it cannot produce, or cannot produce at an equal cost, itself; and that all capital and labour displaced from foreign trade would of necessity find 'equal employment' in home trade, since 'exportation ceasing, importation to an equal value would cease also, and all that part of the income of the country which had been expended in imported commodities would be ready to expend itself on the same things produced at home, or on others instead of them.'

Now, in so far as the 'mercantile theory' regarded national prosperity as the main object to be considered, rather than the prosperity of other nations, the mercantile theory was right. The patriot is still as far—and there seems to be no reason to hope that he will for an indefinite time in future history become less far—from being 'sufficiently advanced in culture to feel the world his country' (J. S. Mill, *loc. cit.*) as he was in the time of Mr. Mill. It is quite true, generally speaking, that that is no reason why he should not sincerely desire wealth and progress in other countries as being 'a direct source of wealth and progress to his own,' although, as Professor Nicholson points out (*op. cit.*, book iii., chapter xxviii., section 7), this is not always and necessarily true; on the other hand, there is still less reason why he should wish for the prosperity of other countries at the *expense* of his own, and if he found that this was what was occurring, he would be justified in advocating pretty stringent measures, if such could be found, to turn the balance in his country's favour again.

Without in any degree falling into the money fallacy of the mercantilists, it may be stated without hesitation that the 'vulgar error' of ascribing immense importance to export trade is not an error at all, but a perfectly sound

judgment based on a strict sense of the truth. For this there are in England at the present time five principal grounds: (1) The profit with which an export trade is carried on: (2) the fact that by paying for imports with exports of manufactures, consumers' incomes—*i.e.*, producers' earnings—are maintained: (3) that this form of payment for imports tends to cause foreign indebtedness to us to bear compound instead of simple interest or none at all: (4) that it ensures production on a large scale: (5) that capital and labour cannot, or can only with great loss and difficulty, be transferred to some other employment.

It is clear that some of these points are largely interdependent. For instance, as was seen above, it was confidently stated by Mill that loss of export trade being immediately replaced by an equal gain in production for home trade, there could be no loss to the nation as a whole; and this statement continues to be made by his modern followers. If this were true always, none of the grounds above enumerated could be absolutely sustained. It would, on the other hand, be foolish to assert that Mill's deduction is, and must always under all conditions remain, false. On the contrary, it is perfectly true under certain conditions already generally stated. In the case, however, of a highly developed industrial country such as England, in keen competition with other industrial countries equally highly developed, it is manifestly untrue. In this case, when the export trade to the competing countries shows a decline, it means that those countries can make the staple manufactures of the exporting country as well and cheaper themselves, and that they will, in their turn, commence to export those manufactures not only to 'neutral markets,' but also to the exporting country itself. It must necessarily follow that the loss, or a great part of it, would be irreparable, since all home industries, (I, of course, do not include special industries working monopolies under the protection of patents), would

already be pressed so hard by both home and foreign competition that no place could be found for any fresh competitor, while to expect that some new industry would always be forthcoming at the right moment is to lean on a very broken reed. Ultimately the only possible remedy apart from a fresh, or extended, demand would be found in a general decline of wages which would cause, probably, a social upheaval, or, as previously stated, the emigration of both labour and, if possible, capital elsewhere.

An impartial examination of our trade and emigration returns will show that these are the very conditions which, in regard to competing countries, we are fast approaching. The statistics already given in Chapters V., VI., and VII. show not only that while our exports of manufactures are, in absolute figures (values), declining, our imports, are increasing, but that this is taking place both absolutely and relatively in our staple textile and steel and iron industries. In the interesting compilation made by Sir Alfred Bateman for the Board of Trade last year (Cd. 1199) special figures are given in regard to our trade with the countries which are our keenest competitors, from which the following general statement has been made up :

IMPORTS INTO UNITED KINGDOM.

FIVE-YEAR AVERAGES.

Country.	Averages of 1880-1884.		Averages of 1896-1900.	
	Total.	Per head.	Total.	Per head.
	Million £	£ s. d.	Million £	£ s. d.
From France	39'4	1 2 5	52'3	1 6 0
„ Germany	25'0	0 14 3	28'7	0 14 3
„ United States	96'8	2 15 0	120'9	3 0 2
Total	161'2	4 11 8	181'9	5 0 5

EXPORTS FROM UNITED KINGDOM.

FIVE-YEAR AVERAGES.

Country.	Averages of 1880-1884.		Averages of 1896-1900.	
	Total.	Per head.	Total.	Per head.
	Million £	£ s. d.	Million £	£ s. d.
To France	16·9	0 9 7	15·3	0 7 7
„ Germany	18·1	0 10 3	23·6	0 11 9
„ United States	28·7	0 16 4	18·8	0 9 4
Total	63·7	1 16 2	57·7	1 8 8

If these figures be analysed it is found that while our coal exports to France and Germany have increased largely, especially in the case of France, our exports of manufactures both to France and the United States, more particularly to the latter, have decreased both relatively and absolutely, and those to Germany relatively also. At the same time our imports of silk, woollen, cotton, glass, and iron and steel manufactures have increased from one or other of all three countries.* In regard to the United States, the significant fact has been pointed to by Mr. J. Holt-Schooling that, while imports from all sources into the United States rose, during the twenty years 1881-1900, by 181·9 million pounds, our exports to that country declined during the same period by 63·5 millions.

It is, of course, true that no equivalence of exports and imports between any two countries is to be looked for, and that the commercial relations of the whole world have now

* The returns in regard to Germany do not represent the total trade with that country, a considerable portion, especially as regards our import trade, being carried on through Dutch and Belgian ports. If the returns of the three countries be considered together, the movement of our imports will be found to be considerably greater than that of our exports.

become so intricate and involved that all we can expect is that the totality of a nation's exports (including in that term all possible forms of invisible exports), and debts due, should be balanced by the totality of its imports. This consideration has been more than once touched upon already, and is here scarcely relevant except from the point of view of the effect which foreign trade may, generally, be having on our home industries. Moreover, its importance must not be exaggerated; in the case of a group of three countries such as that above, the 'direct' trade figures must unquestionably be taken as evidence of the 'tendency' of our trade with them.

It would, however, be instructive to examine more general figures, in order to see whether this tendency is confirmed. In Table D of Sir Alfred Bateman's memorandum a classified statement is given of imports from all countries into the United Kingdom, and in Table F a classified statement of the exports. From these two may be gathered the following comparative figures in regard to our export and import of manufactured articles (exclusive of shipping):

	Exports. Million £.		Imports, Million £.
Average 1890-1894 ...	203	...	65·7
„ 1895-1899 ...	204	...	84·1

I do not think it can be questioned that these figures confirm the tendency above noted. To obtain actual statistical demonstration that the displacement which has thus occurred is not, as supposed, any loss to the country as a whole owing to a correspondingly increased expansion of manufactures for home supply, is not within my means of research.* But when it is considered how close a relation the consumption of pig-iron must have with virtually all

* It is, however, a pretty significant fact that the total number of persons employed in textile factories fell from 1,075,751 in 1895 to 1,036,570 in 1898.

manufacturing industries, I think it will be conceded that a good deal can be learnt from the figures of that consumption during the same years. These were given on p. 82, where it will be seen that they were little better than stationary. It is not an exaggerated inference to draw from what has been here said that Mill's assertion is already proving false in regard to this country, and, as time goes on, and world-competition becomes more and more keen, that it will prove to be continually falser.

The contempt, therefore, for exports as compared with imports was ill-founded, and not only on these grounds. For a manufacturing country an abundant export trade implies production on a large scale, 'all factories running at full time,' and the importance of such a condition is so manifest as to need, perhaps, little insistence. Mill himself alludes to it (*loc. cit.*, section 5) as an 'indirect advantage of a high order'; he might have said 'direct.' Indeed, he insists upon it as such in another part of his work (book i., chapter ix., section 3), and what he there wrote is so apposite as to be well worth quoting: 'The possibility of substituting the large system of production [of which he had been pointing out the advantages] for the small depends, of course, in the first place on the extent of the market. The large system can only be advantageous when a large amount of business is to be done; it implies, therefore, either a populous and flourishing community, or a great opening for exportation. Again this, as well as every other change in the system of production, is greatly favoured by a progressive condition of capital. It is chiefly when the capital of a country is receiving a great annual increase that there is a large amount of capital seeking for investment; and a new enterprise is much more easily entered upon by new capital than by withdrawing capital from existing employments. The change is also much facilitated by the existence of large capitals in few hands. . . . In the countries in which

there are the largest markets, the widest diffusion of commercial confidence and enterprize, the greatest annual increase of capital, and the greatest number of large capitals owned by individuals, there is a tendency to substitute more and more, in one branch of industry after another, large establishments for small ones.'

This tendency, noted by Mill for England at the time he wrote, has of late years made relatively little progress in this country, but has received, and is receiving, marked exemplification in other countries, notably in the United States. This, to confine ourselves to our own business, is not surprising in the light of the facts that our export trade shows so little expansion, while foreign manufactures in our own staple industries are increasing their hold on our home markets at the rate of £3,000,000 a year. The very fact, indeed, that the tendency of capital to aggregate in a few hands has diminished is one more indication of the creeping paralysis of commerce which has commenced to seize us, and which is none the less deadly because gradual. Mr. Andrew Carnegie, a man of almost unequalled experience in the matter, spoke of it in his Rectorial Address to the University of St. Andrew's in the following weighty words: 'It is not the amount imported, however, that discourages the home producer; the knowledge that he is open to serious competition from abroad, a small amount of which will break his market, is what makes him loth to invest the great sums sometimes necessary to keep him in the front, and robs him of the do-or-die resolve, which often is of itself the secret of victory in the struggles of life.' Leaving aside for the moment the question of the home market, the importance of a flourishing export trade for England, if only from the point of view of production on a large scale, is thus evident. It is not chiefly a question, as Mill seemed to suppose, of 'finding a vent for its surplus,' but of obtaining those expanding markets on the great advantages of which

Mr. Andrew Carnegie rightly laid such stress in the address quoted.

Of the other four grounds noted above on which the importance for England of a flourishing export trade rests, only one needs special mention here, the others having been already treated at various places in the foregoing pages : that one is 'the profit with which an export trade is carried on. That profit may be direct or indirect, or both ; it may be present or deferred, or both.

The present and direct profit needs little dwelling upon. This is the case in which the usual assumption of the theoretical economist—viz., that the exchange of commodities between nations must necessarily be carried on at a mutual profit—the dealings of nations being the aggregate dealings of individuals, and the individual dealer being bound in the end to secure his profit—is correct. The indirect profit—that, namely, of securing the extended markets necessary to render production on a large scale, with its attendant advantages, possible—has just been considered, and clearly can be reaped simultaneously with the direct profit ; indeed, as already observed, it might properly be itself considered as a further direct profit.

This 'indirect' profit may, however, occur when, contrary to the economic assumption, the 'direct' profit is *not* present—a case in which it certainly does not lose, if anything it gains, importance. Mr. Carnegie puts this in words upon which it would be difficult to improve : 'The manufacturer upon a large scale can afford to make many contracts in distant parts of the world, and even some at home, at a direct loss in times of depression, knowing that, on the whole, the result will be less unprofitable by running full than running short time, or stopping. Hence those possessing the most profitable home market* can afford to supply

* What is meant here is, as the context shows, an extensive and expanding demand in the home markets. List continually and strongly

foreign markets without direct profits, or even at a loss when necessary.'

This may, in truth, be regarded as one instance in which the profit would be 'deferred.' The advantage of the gigantic manufacturing establishment—'because the more made the cheaper the product, there being a score of cost accounts divisible by product'—the possibility of which depends on gigantic markets, is such that a present loss will

insists upon this theme, and waxes very wrath with Dr. Bowring for his presentation for Germany of the very sophistries which are at the present moment being dinned into our ears with wearisome iteration by the devotees of the 'orthodox' school. 'Further,' he says, (*op. cit.*, Translation, p. 396), 'the author of the report appears to be utterly steeped in error when he maintains that foreign competition in German markets is necessary for the German manufacturing interest itself, because the German manufacturers, as soon as they are in a position to supply the German markets, must compete with the manufacturers of other countries for the disposal of their surplus produce, which competition they can only sustain by means of cheap production. But cheap production will not consist with the existence of the protective system, inasmuch as the object of that system is to secure higher prices to the manufacturers.'

'This argument contains as many errors and falsehoods as words. Dr. Bowring cannot deny that the manufacturer can offer his products at cheaper prices the more he is able to manufacture; that, therefore, a manufacturing power which exclusively possesses its own market can work so much the cheaper for foreign trade. The proof of this he can find in the same tables which he has published on the advances made by German industry; for in the same proportion in which the German manufactories have acquired possession of their own home market their export of manufactured goods has also increased. Thus, the recent experience of Germany, like the ancient experience of England, shows that high prices of manufactured goods are by no means a necessary consequence of Protection.' This was written at the very time that Cobden was initiating his Free Trade campaign in England. Seeing that almost all the prophesies of List are coming true, while nearly all those of Cobden are being falsified in the event, it is, one would think, the teaching of List, and not that of Cobden, which we should now follow.

be sustained without effort or complaint in the knowledge that the deferred profit, when the times of depression are passed, will more than make it good. Exactly the same proposition holds good in the case of present loss being incurred with the object, previously discussed, of crushing a trade competitor out of a market in order that that market may be secured for the future :* the struggle here may be sharper and of longer duration, but the side with the largest markets on which to depend is sure of ultimate success, and of a 'deferred' profit which will largely compensate the present loss. The case is clearly conceivable, even, that, if the dependable markets be very much larger on the attacking side than on the attacked, the difference of output might be such that the latter might be driven to work at a loss while the former is still working at a slight profit, when it would have both the present advantage of the latter, and the future advantage of an increased 'deferred profit.'

* The idea, after all, is no new one. List, in his 'National System of Political Economy' (Translation, p. 87), quotes 'a celebrated Member of Parliament,' Mr. Henry Brougham (afterwards Lord Brougham), as saying openly in 1815 'that it was well worth while to incur a loss on the exportation of English manufactures in order to stifle in the cradle the foreign manufactures. This idea of this Lord,' continues List, 'since so renowned as a philanthropist, cosmopolist, and Liberal, was repeated ten years later almost in the same words by Mr. Hume, a Member of Parliament not less distinguished for Liberalism, when he expressed a wish that "Continental manufactures might be nipped in the bud."' The plan of strangling full-grown English industries is merely an extension of the idea of 'stifling in the cradle the foreign manufactures,' or 'nipping them in the bud.'

CHAPTER XXI

BRITAIN AND HER RIVALS

Comparative examination of our export trade to 'neutral countries,' colonies, and dependencies—Special conditions of France—Comparison of progress of Germany and United States with our own—In regard to European countries—To American countries—To Far East—to British possessions—Free Trade assertion as to desirability of coal exports—General review of situation—First conclusion to be drawn therefrom—Second conclusion—Liability to dislocation of trade under free imports—Decrease of imports need not entail decrease of exports of produce—Effect of secure and expanding home markets on exports—Practical example afforded by Germany—Figures relating thereto shown by income-tax returns—By steel output—By railway statistics—By Messrs. Krupp's report—By other labour returns—Conclusions from these figures—Examination of some objections to moderate tariff for England—Of 'Free Trade area' argument for Germany and United States—Error of not regarding British Empire as a whole—Of considering Imperial trade as constant instead of progressive factor—Example of United States—Future advantages assured if we free ourselves of this error—Parallel between British Empire and List's modern Germany.

REVERTING to the position of our oversea trade, sufficient figures have already been given to show how we stand in regard to the principal competing countries, and to the world in general. It is now necessary to complete the examination by observing the movements of our export trade with 'neutral' countries and our colonial possessions and dependencies, both as regards itself and in relation to the trade of our chief competitors. In order to do this I venture to transcribe bodily a set of very important tables

I.
PROPORTION OF IMPORTS FROM THE UNITED KINGDOM TO TOTAL IMPORTS INTO THE
FOLLOWING GROUPS OF COUNTRIES IN 1884-1885, 1890-1892, 1893-1895, and 1898-1900.

Groups of Countries.	Proportion of Imports from the United Kingdom.				Total Value of Imports from all Countries.			
	Average of 1884-1885.	Average of 1890-1892.	Average of 1893-1895.	Average of 1898-1900.	Average of 1884-1885.	Average of 1890-1892.	Average of 1893-1895.	Average of 1898-1900.
Europe*	Per Cent. 18	Per Cent. 17	Per Cent. 16	Per Cent. 15	Million £ 701	Million £ 806	Million £ 777	Million £ 1,011
Egypt	39	37	34	38	9	9	9	13
United States, Argentine Republic, Uruguay, and Chili	26	25	24	21	164	210	196	186
China	25	21	18	17	22	32	29	36
Japan	45	34	33	21	6	11	13	26
British Possessions	54	51	52	45	194	226	216	268

* Excluding Austria-Hungary, in order that the figures may be comparative throughout. See Note (D), Appendix, p. 275.

NOTE.—This table takes no account of the imports of British goods into China or Japan from Hong Kong or the Straits Settlements.

II.

Groups of Countries.	Increase or Decrease in Imports between 1884-1885 and 1898-1900.											
	Increase or Decrease in Total Imports between 1884-1885 and 1898-1900.			From United Kingdom.			From German Empire.			From France.		
	Amount.	Per Cent.		Amount.	Per Cent.		Amount.	Per Cent.		Amount.	Per Cent.	
	Thou- sand £			Thou- sand £			Thou- sand £			Thou- sand £		
European Countries, exclusive of Austria- Hungary*	+ 309,733	+ 44·2		+ 28,682	+ 22·8		+ 33,466	+ 34·3		+ 3,927	+ 6·9	
Egypt	+ 3,827	+ 44·1		+ 1,322	+ 38·8		+ 356	+ 936·8		+ 186	+ 18·7	
United States, Argen- tine Republic, Uru- guay, and Chili	+ 22,401	+ 13·7		- 3,774	- 8·7		+ 5,514	+ 31·3		- 2,720	- 14·4	
Far East { China Japan	+ 13,544	+ 61·0		+ 510	+ 9·2		*	*		*	*	
British Possessions ...	+ 20,662	+ 356·7		+ 3,010	+ 116·7		+ 1,796	+ 432·8		+ 359	+ 117·8	
	+ 73,565	+ 37·9		+ 14,726	+ 13·9		+ 6,003	+ 394·7		+ 881	+ 37·6	
Total	+ 443,732			+ 44,476			+ 47,135			+ 2,624		
										+ 110,377		

* Not distinguished.

† See Note (i), Appendix, p. 275.

from Sir Alfred Bateman's memorandum, and to place them as an appendix to this volume.* These tables will repay careful study, and in order to enable their general effect to be observed with greater ease, I give two summaries constructed from them (pp. 220 and 221).

From the first of these it will be seen that while the absolute increase of imports into all the principal countries of the world was very considerable, the relative amount of their imports from us shows in every case (with the sole exception of Egypt in 1898-1900) a constant decrease. This *a priori* unwelcome fact by no means diminishes in significance in the light of the second summary, or of Table V. in the appendix. By the former it can be seen that the total increase of imports into the countries enumerated in the detailed tables amounted, between 1884-1885 and 1898-1900, in round figures to £444,000,000. Of this we obtained only one-tenth, while Germany secured more in absolute figures than did we, and the United States two and a half times as much.

France is a long way behind in progress of her exports; but the special conditions of France, her stationary population, the nature of her national industries, and the comparatively unenterprising spirit of her traders, are such that this is not a surprising fact. She never has been, and probably she never will be, a serious competitor for the great mass of the world's trade with other industrial nations.

The case, however, of Germany and of the United States is altogether different. Whether in absolute figures or in percentages, the rate of expansion of the export trade of the latter leaves us hopelessly behind in all parts of the world except Egypt and British possessions, while that of the former is well ahead of us also. Even in British possessions we are beaten both absolutely and relatively by the United States, and relatively by Germany. A reference to

* These tables include the figures for 1900.

Table V., in which the comparison is between the latest available three-year averages (1898-1900) and those of five years previous (1893-1895), does not show us in any more advantageous light. Here it is seen that the greater proportion of the trade with European countries is not in our hands; at the same time, we have lost 5 per cent. of the import trade of the country which shows the second greatest rate of expansion (Russia), while Germany gained 11 per cent. of it, and in the case of the greatest expansion (Belgium) we gain 2 per cent., probably more than accounted for by German trade through Belgian ports: Germany gains one, which may possibly be accounted for in the same way; and the United States gain 5. Generally speaking, our gains are with countries of smaller importance, and the reverse is the case with our competitors.

As to American countries we lose all round, except with Mexico, where we gain 1 per cent., and Germany 3; Germany remains stationary, except for her advance in the latter case; and the United States gain all round, except, also, with Mexico, where she loses 3 per cent. of the trade.

In the Far East we lose heavily; Germany gains so far as the returns show; and the United States gain almost as rapidly as we lose.

The worst proportionate position of all is shown in regard to British possessions. Here, with the exception of Ceylon and the Mauritius, where we gain 3 and 4 per cent. respectively, but the trades of which are relatively insignificant, and in the case of the second stationary, and of British Guiana (where we lose 1 per cent. of a trade which declines from two millions to one), our relative losses of trade are heavy all round, while those of Germany and the United States generally show advances, especially in the case of the more important colonies, the United States progressing far the more rapidly. The author of the Board of Trade memorandum seems to attempt to draw some consolation from

fact that 'on the whole . . . we still retain the preponderating position.' It would, indeed, be a most extraordinary thing if we did not, considering the enormous start we had of other nations, the immense preponderance we gained over them thereby, and the special trade relations which, in the natural course of things, subsisted, and to a certain extent still subsist, between our colonies and dependencies and the mother-country. No man imagines such a cataclysm to have taken place as would be meant by our having lost all that preponderance in the course of a few years; but without that our case is quite sufficiently anxious.

Even the relative satisfaction with which we might regard the fact that our export trade has gained, in absolute figures, some forty-four and a half millions must be largely diminished when we bear in mind the counterbalancing fact (previously referred to*) which has been pointed out by Mr. Holt-Schooling, that if exports of coal be deducted, our 'special' exports fell thirty millions in the decennial period 1891-1900, as compared with 1881-1890. This figure would be larger still if the comparison were made to start from 1884, as in the Board of Trade tables, since the great increase in our coal exports has taken place of recent years.

A curious reply has been attempted on this point by certain Free Trade organs, and has received support even from so weighty an authority as Professor Nicholson,† namely, that some other power may in the future displace steam, in which case the nation would be glad to have previously rid itself of all its coal at a profit. By parity of argument it would be an excellent thing for the nation to get rid of all its railway securities, since some other means of locomotion—say flying-machines, or Mr. Wells's 'Eadhamite Roads'—may in the future displace railways. The conduct of national interests on such pure hypothesis as this would be, indeed, fantastic, and such extreme arguments

* *Vide supra*, p. 75.

† *Op. cit.*, book v., chap. xiv., section 5.

must rather throw ridicule on a Free Trade policy than support it.

On a general review of the situation as revealed by Sir Alfred Bateman's figures, it is clear that, while our exports of manufactures are gradually contracting, those of our chief rivals are expanding at a very rapid rate. Further, the fair inference which may be drawn from the previous discussion is that our manufacturing industries have no longer an expanding market at home—certainly not one which even approximately keeps pace with the increase of population, since this is supplied at the rate of £10 per head with manufactures imported from foreign countries. In regard to manufactures, the whole of the expansion of the world's markets, the chief part, if not the whole, of the expansion of our home market, and virtually the whole of the expansion—which is enormous, especially in the United States—of their own home markets are at the disposal of our rivals; the main characteristic of their manufacturing trade is expansion, the main characteristics of ours are stagnation or contraction. Those who have carefully digested what has been written above in regard to the progressive advantage of an expanding trade will understand what this means.

Under existing conditions that advantage must grow intensively on the side of our rivals, and the disadvantage at which we are placed grow in proportion: the mischief is dynamic. I am anxious not to exaggerate, but I do not see how any impartial mind, unbefogged by the dialectics of text-books based on economic abstractions which do not apply to the modern conditions of the world, can arrive at any different result.

If I am right, then it is evident, as a first conclusion, that within a limited time, of which the duration will be fixed by the capacity of our employers (joint-stock or private) of labour to continue the unequal struggle,—and seeing the energy and resource of the British race that capacity must

still be great,—as an industrial nation we must collapse. Meanwhile the demand for labour is bound gradually to fall off, wages must decline, and that disaster for the working classes anticipated on a previous page (*vide supra*, p. 163) must occur, however cheap commodities may be for the consumer.

The stock answer that the declension in wages must also produce a general cheapening of production, and therefore of prices of our manufactures, which will set matters right, and enable us to recover our position both in our own markets and in the markets of the world, cannot, I fear, hold good. In the first place, not only on account of the despairing and bulldog courage of the employer, but also on account of the immense resisting power of workmen's combinations to any movement of wages in a downward direction—which is, no doubt, the reason why they have not already decreased—the struggle will be long and bitter, and leave our industries in an exhausted condition. In the second place, our successful rivals will have secured such a position for production on a large scale that even with low rates of wages we, producing on a comparatively small scale, could not hope ever to recover any considerable portion of the position lost. Our defeat would have been decisive and final.

The second conclusion is that our trade is already so dislocated that the further dislocation which those opposed to any change in our present fiscal policy fear, need cause no alarm. On the contrary, the dislocation will only become more and more intense and irremediable if we continue to leave things as they are.

We seem in this matter to be inclined to become victims of a phrase. What *is* the dislocation of trade? If it means the displacement of industries which have been established, or the blocking up of old channels of trade and the opening out of new ones, the system under which commerce has been carried on for the last quarter of a century affords pre-

eminent examples of trade dislocation. To mention only a few, our sugar-refining industry, our silk industry, our chemical industry, our glass industry, and to a considerable extent our woollen and worsted industry, our iron and steel industries, and our hardware industry have all been displaced; the increasingly protective tariffs of other countries have blocked up old channels of trade more and more, and we have been driven to find new ones with imperfect success. This liability to dislocation is acknowledged, indeed, by most modern writers on economics to be a necessary accompaniment of Free Trade,* whereas a scientifically ordered system of Protection would keep the conditions of production more stable. The advantage, however, of more stable production might be more than outbalanced by the disadvantage of a contracting market; what we wish to secure is the double advantage of stable conditions of production and prosperous and expanding markets.

It has been seen that our present system, under modern conditions, fails in both respects, and it has been suggested that the best—indeed the only certain—remedy is that we should by a system of moderate Protection in this country, enforced by a scientific tariff, recover our home markets for ourselves, and by a preferential system with the colonies, leading ultimately to Free Trade within the Empire, gradually extend them over the whole Empire. How far this might ‘dislocate’ our foreign trade will be briefly discussed from the point of view of its probable effect upon imports in the next chapter.

From the point of view of exports, were we to accept the usual abstract arguments of economic text-books, and notably that which insists that imports being paid for by exports of produce, a decrease of the former must be followed by a decrease of the latter, it could not be contested that we should

* Cf. Professor Sidgwick, ‘Principles of Political Economy,’ book iii., chap. vi., section 4.

find foreign markets for our products a diminishing quantity. But these arguments, however well supported by deductive reasoning in economic schools, and however right and desirable it may be to inculcate them on students of economic theory, are not based on the solid grounds of reality and experience. Indeed, theory admits at once that imports are paid for in a variety of ways besides exports of produce, and are, for instance, largely a form of payment of interest on past loans or investments abroad. It therefore does not in the least follow that if that payment were diverted—reinvested, say, abroad—and that imports were, to that extent, decreased, exports of produce would be decreased in consequence in the slightest degree.

But there are other practical and immensely important effects which secure and expanding home markets must have upon exports, not, I believe, taken seriously into account in our leading economic text-books. One of these has already been adverted to (*vide supra*, p. 215) by a quotation from Mr. Andrew Carnegie—viz., that the home-producer, knowing his market to be secure, does not hesitate to embark in his enterprises the great capital which is sometimes necessary for success in world-competition, whereas in the reverse case he is discouraged from so doing. From the same authority (not, I may repeat, as a theoretician, but as a man of immense practical experience), I will venture to draw again. ‘The absence of a large home demand,’ he says, ‘is a serious, almost fatal bar to the introduction of any new article of manufacture which must be produced upon a great scale. . . .’* In the race for the world’s trade between these countries [Britain, Germany, and the United States] several considerations are important: First, let this vital fact be noted—the most powerful weapon for conquering

* The oreign competition in our home markets thus largely increases the difficulty of the transference of capital from a displaced industry to a new one.

foreign markets is a profitable home market. It might almost be taken as an axiom that the nation, fortified by the best home demand for any article, will finally conquer the world's trade in that article in neutral markets.' These considerations are really the same involved in Mr. Mill's description of the advantage of production on a large scale, although he scarcely more than alludes to them as an **element** in the matter.* Practice and theory thus join hands, and lead us to infer that the security of the home markets is one of the first considerations in securing a large share of the world's trade—*i.e.*, of expanding exports.

Leaving statements of theory and results of individual experience, we may once more examine what is to be learnt from a nation which has put the principles to practical test. The total income assessed to the income-tax in the United Kingdom in 1891-1892 was 537 million pounds, and in 1900-1901, 594 million pounds. Increased abatements for small incomes have been granted since then, but other causes already mentioned probably counterbalance this. The assessed national income increased, then, by 57 million pounds, or, say, by 10·6 per cent. During the same period (1892-1901) the assessed income in Prussia increased from 161 million pounds to 235 million pounds, an increase of 74 million pounds, or 46·4 per cent.† Figures have already

* See his 'Principles of Political Economy,' book i., chap. ix., section 3.

† Mr. Otto Eltzbacher, in the *Nineteenth Century and After* for August, 1903, makes the following interesting statements: The income of Saxony, the Lancashire of Germany, rose 'from 959·2 million marks in 1879 to 1666·5 million marks in 1894, and if later figures were available it would appear that the income of that country has considerably more than doubled since Protection was reintroduced into Germany. It is also significant that Saxony, with 4,500,000 inhabitants, has more than £50,000,000 deposited in its savings bank—as much as have 10,000,000 Englishmen.

* The beneficial effect of the Protection tariff on German industries

been given showing the immense increase of the foreign trade of Germany, and of the production and consumption of pig-iron. The output of steel shows the same characteristics, her production having been in 1890 2,127,000 tons as against ours of 3,679,000 tons; and in 1899, 6,189,000 tons against our 5,000,000 tons. Railway statistics, again, are useful guides as to the increase, or the reverse, of national prosperity; in these, too, the advantage is on the side of Germany, as will be seen from the following figures:

	United Kingdom.	Germany.
Increase between 1895 and 1899:		
of passengers carried (thousands)	176,921 ...	214,379
of goods carried (thousands of tons)	79,393 ...	80,991
of gross receipts (thousands of pounds)... ..	14,455 ...	22,557

Messrs. Krupp, of Essen, have recently published a very interesting set of figures, the *Times* summary of which I copy as follows:

'In 1871 the daily wages of workmen in Krupp's establishment were 3 m. 3 pf., and in 1875 3 m. 89 pf.; but they sank

was immediate. On March 16, 1881, Mr. von Kardorff stated in the German Diet that 85,901 men were occupied in the German iron and steel industries in January, 1879, and 98,224 men in January, 1881. They received in wages 5,288,539 marks in 1879 against 6,459,694 marks in January, 1881, which is equal to an increase of 50.28 marks per annum for every worker. Mr. Loewe, another member of the Diet, reported on the same date that in the important districts of Bochum and Dortmund wages had risen from 5 to 15 per cent.; but not only had wages risen, but the men who some years ago had been only partly occupied were now fully occupied. Some had formerly been working only three or four days a week. Other deputies gave similar reports.'

again till, in 1879, they were 3 m. 2 pf. Then, after Germany's conversion to Protection in 1879, wages rose steadily. In 1882 they were 3 m. 57 pf.; from 1886-1888 3 m. 71 pf., rising to 4 m. 6 pf. in 1892. In 1895, after a slight depression, they were 4 m. 10 pf.; and in 1900, 4 m. 78 pf. In the next two years wages fell slightly, owing to the depression in trade.

'The argument set forth in the report is that during the Free Trade period—1871-1879—wages were practically stationary, whereas in the Protectionist period they rose, showing in 1900 a rise of 58 per cent. on 1871. This is declared to be the more noteworthy as the seventies were good business years, yet no rise of wages took place. Dealing with the contention that in the same period the price of food rose proportionately, the report adduces the following facts: From 1871 to 1902 of the chief articles of food consumed by workmen, bacon rose 27 per cent., veal 21 per cent., and beef 5 per cent.; whereas black bread was 20 per cent. and potatoes were 29 per cent. cheaper. This is taken as proving that wages under Protection rose considerably more than the price of food, and that therefore it is erroneous to contend that Protective tariffs have materially increased the price of food.'

While the variation in the prices of food may be looked upon as applying pretty generally, the rates of wages can only be regarded as applicable to the iron and steel trades, of which Messrs. Krupp are the most important representatives in the German Empire. From the official 'Abstract of Foreign Labour Statistics,' published in 1901, other figures can, however, be gathered which tell much the same tale. Thus the average monthly rate of wages of seamen in the Baltic and North Sea districts rose from 47s. 7d. in 1884 to 57s. 8d. in 1899, and the number of engagements from 14,101 to 18,747. The wages of miners in Prussia show the following increase:

AVERAGE ANNUAL EARNINGS OF MINERS (ADULT MALES).

I. COAL AND LIGNITE MINES.

Year.	Overmen and other Officials.	Hewers and Trammers.	Other Under- ground Workmen.	Surface Workmen.
	£ s. d.	£ s. d.	£ s. d.	£ s. d.
1888	69 16 6	41 3 3	35 15 8	34 2 8
1899	92 8 4	63 9 1	48 11 4	46 2 8

II. METALLIFEROUS MINES.

Year.	Overmen and other Officials.	Hewers and Trammers.	Other Under- ground Workmen.	Surface Workmen.
	£ s. d.	£ s. d.	£ s. d.	£ s. d.
1888	*51 8 2	*33 9 7	*38 0 2	*23 15 3
1899	72 7 3	47 19 2	42 12 4	38 5 2

The comparative figures given for certain trades and the State railways in Wurtemberg on pp. 33 and 34 of the same publication, show a steady rise in wages in all cases except 'glass manufacture' and tramways, and a continual rise in the number of workpeople employed in the trades except, again, glass manufacture.

Again, in the matter of workmen's insurance in the German Empire, the number of persons insured rose from 6·144 millions in 1889 to 9·155 millions in 1899; the receipts from 5·126 million pounds to 9·734 million pounds; the total expenditure from 3·927 million pounds to 8·085 million pounds; and the balance of funds from 4·190 million pounds in 1893 to 7·617 million pounds in 1899. The total pensions and other grants from 'Old Age and Invalidity Insurance' rose from £765,340 in 1891 to £3,758,205 in 1899,

* Oberharz district only.

and the total receipts from 4·482 million pounds to 6·896 million pounds.

It is clear from the figures above given and those given on pp. 64 and 65 that the 'dislocation of trade' which Germany has suffered under Protection has led only to her advancing in prosperity at a more rapid rate than has the United Kingdom under the non-dislocating system which we are supposed to enjoy, and it would appear that her labouring classes reap the reverse of disadvantage from their conditions. There is, therefore, nothing for us to fear if we change our system to a much-diluted imitation of hers.

Sufficient figures have already been given with relation to the United States; to add to them would merely be wearisome. Their example, so far as foreign trade is concerned, can be taken as conclusive. If with the high walls of tariff which they have set up their exports have expanded in the remarkable way in which they have, then it is certain that with the quite moderate tariff which is proposed in our case, trade need not and will not be 'dislocated' to our disadvantage, and there will be no question of 'our sacrificing two-thirds of our oversea trade for the sake of the other third.'

To this line of argument it is sometimes objected that there is no guarantee that, if we adopted a moderate tariff, it would remain moderate. It is advanced that first one 'interest' and then another would insist on having more and more effective 'protection,' until the moderate tariff would become virtually prohibitive, and by means of 'wire-pulling,' of which the active means would be 'lobbying' and corruption, we should revert to a system of monopolies at the expense of the great mass of worker-consumers.

Those who indulge in fancies of this kind forget, to begin with, the fact already alluded to in the chapter dealing with our food-supplies, that, since the 'system of monopolies' was abolished, political power has been transferred from the few

to the worker-consumers themselves, and that without their deliberate consent no change whatever can be instituted. They forget, too, that those worker-consumers are no longer steeped in ignorance, but are educated to observe and think for themselves, that they are keenly and intelligently conscious of their own interests, and that they would never permit those interests to be overridden by the possibly narrow or selfish objects of a few would-be monopolists. They forget, further, that through the extraordinary development of the public press, 'a fierce light beats' upon the manner in which public affairs are conducted, and that, should our public men, abandoning their historic and splendid traditions of integrity and incorruptibility, attempt to yield to the temptations of greed of personal gain and the pressure of lobbying, they would be hounded from public life in crushing disgrace. Nor need we fear, I think, that educated English gentlemen would be more prone to fall victims to such temptations than men of their own class in other nations; with perhaps one exception, there are no indications that the tone of public life in protected countries is, in this respect, lower than in our own.

It is further objected that the case of the United Kingdom is not on all fours with that of Germany, and still less with that of the United States, on account of the greater Free Trade area within their frontiers. I have never seen an attempt at an explanation on the part of a 'convinced Free Trader' why this greater internal Free Trade area should have the smallest effect upon the foreign trade of the protected countries named. It may be that a dim and hazy perception of the advantage to foreign trade that lies in secure home markets, above explained, arises in the Cobdenite mind. If so, that mind has never given it expression, which, perhaps, after all, is natural, since the policy of Free Imports could no longer be logically sustained when that point had once been conceded.

However that may be, the objection is itself founded on the obstinate fallacy of persisting in considering the United Kingdom and each colony and dependency as separate entities, instead of regarding the Empire as one whole, single and complete in itself. This all-important consideration, and the great development of commerce and wealth which must ensue to every part of the Empire from throwing all its internal markets freely open, the one to the other, have, perhaps, been already sufficiently insisted upon, as, has also, the fact that inter-Imperial Free Trade being, for the present, politically impossible, reciprocal preferential treatment in favour of all parts of the Empire as compared with foreign countries should be welcomed without fear or hesitation, as a most effective and considerable step towards Free Trade itself.

I should like, however, again to call attention to one most important aspect of the matter which Cobdenites resolutely refuse to take into account. It is a grievous and capital error on their part to compare the relative importance of our colonial and foreign trades as they exist to-day, and to refuse to look forward even for a few years. 'The same causes,' wrote List some sixty years ago, 'which have raised Great Britain to her present exalted position, will (probably in the course of the next century) raise the United States of America to a degree of industry, wealth, and power which will surpass the position in which England stands as far as at present England excels little Holland.' Set this side by side with the foresight of Professor Thorold Rogers, who, as Mr. Benjamin Kidd says, 'saw us holding our own indefinitely and fixing the price of nearly every product of human industry.' Even as the vision of Professor Thorold Rogers has already proved false, so we already see the prediction of List rapidly coming true.

A similar prediction might be made in regard to each of the two great colonial federations — the Dominion of

Canada and Australasia—and to South Africa, which last, indeed, although not federated, will, unless the trend of events completely alters, rapidly become so. The headway which the United States made in thirty years—her exports increased from 78·5 million pounds in 1870 to 250 million pounds in 1899—is prodigious, and was quite unforeseen by our Free Traders of the former time. Those of modern days are shutting their eyes now as closely to the future of our three great self-governing colonial systems, which is—and in no long time, for things move ever faster—little, if at all, less great than that of the United States; they cling to the shadow of our stagnant foreign trade, because, owing to our marvellous start over other nations, it looms bigger than the substance of our Imperial trade. But it is the latter which has in it the germs of almost indefinite expansion,* and the former the germs, already too apparent, of gradual decay.

The well-nigh immeasurable advantages which are thus placed within our grasp will, if we persist in not seizing them, be transferred from us to those competitors who are already ousting us from the world's trade by means, and for reasons, already described,—with a disastrous political effect, too, which will be best demonstrated in a succeeding chapter. If, on the other hand, declining to restrict our vision to the immediate present, but looking with clear vision ahead, we seize our opportunities as the colonies, each and all, urgently press us to do, we shall rapidly recover our place in the forefront of all nations, and for ever maintain it. We need not, in that case, fear with Mr. Leonard Courtney that our leadership in the industry of the world could pass away, nor lose as we are losing—although he fondly thinks it is not so—anything of the position we now hold. Ever-expanding markets, production

* For figures showing the rapid expansion of the trade of the colonies which has already taken place, *vide supra*, Chap. IV.

on an ever larger scale will be ours, and all classes of a vastly greater British nation will attain and preserve such a degree of prosperity as the world never has seen, and never again can see.

As a conclusion to this part of my subject I will venture to give another quotation from List's 'National System of Political Economy' (Translation, p. 113): 'Modern Germany, lacking a system of vigorous and united commercial policy, exposed in her home markets to competition with a foreign manufacturing power in every way superior to her own, while excluded at the same time from foreign markets by arbitrary and often capricious restrictions, and very far indeed from making that progress in industry to which her degree of culture entitles her, cannot even maintain her previously acquired position . . . until at last the German States have resolved to secure their home markets for their own industry by the adoption of a united vigorous system of commercial policy.'

The admirable success of that 'united vigorous system' is there for all the world to see. Let us, then, follow that example, and, substituting for 'Germany' and 'German' the words 'British Empire' and 'British' in the above declaration, adopt for ourselves that 'united vigorous system of commercial policy' which shall lead us to a success immeasurably greater.

CHAPTER XXII

IMPERIAL RESOURCES

Third class of objection that revenue from preferential tariff must ultimately disappear—'Protection' and 'prohibition' not synonymous terms—Tariff under scheme proposed moderate—High tariffs in other countries do not prohibit imports—Under moderate tariff revenue would not approximate to disappearance—Also effect would be gradual—Meaning of falling revenue from this source as regards mother-country—As regards colonies—Other questions which must arise.

THE third class of objection in the general series consists in the statement that if, by colonial preference, foreign be replaced by colonial imports, the scheme, in so far as broadening the basis of taxation is concerned, must prove to be self-destructive, since the tax on foreign imports which is to produce the revenue would disappear.

In the first place, this conclusion seems to proceed from an exaggerated idea of what it is proposed that the scale of import duties should be, and in the next of what would be its effect. Now, it cannot be sufficiently insisted that 'Protection' and 'prohibition' are not synonymous terms. I have, in the course of this work, more than once pointed out the undesirableness of the import duties on foreign goods being so high as virtually to exclude the latter, and the consequent necessity that those duties should be kept within moderate limits. They should be so framed as to give colonial producers sufficient encouragement to develop their immense advantages and turn them to the very best

account in competition with foreign producers, and as to place our home industries on conditions of approximate equality, so far as our home markets are concerned, with their foreign competitors.

Now, under such a scheme as this, it cannot reasonably be argued that the taxed foreign imports would cease, and that the revenue derived from them would therefore disappear. If this really be the supposition, it can be shown immediately to be groundless by observing what is the result of the existing tariffs of foreign countries, which are far more severe than any contemplated here. This result has already been discussed in the preceding chapter, and figures in connection with it have been given on pp. 64 and 65. Those figures show that, in spite of extreme protective tariffs, the average value of articles of food and live animals during the five years 1895-1899 which entered the United States amounted to over 45 million pounds, Germany to over 80½ million pounds, France to over 44 million pounds; during the same period the average value of manufactured articles which entered the United States amounted to over 46 million pounds, Germany to about 50 million pounds, France to over 25 million pounds. Thus it cannot for a moment be advanced that, by reason of a far more moderate tariff, the whole of the foreign imports which it might be proposed to tax would cease from entering the United Kingdom. A considerable amount, producing a considerable revenue, must always continue to enter, although the great bulk of our oversea sources of corn and meat supply must unquestionably be transferred ultimately from foreign countries to the colonies, as would doubtless be the case with a large proportion of other articles necessary to our home industries. Although, therefore, the Customs revenue under these heads must, *ceteris paribus*, fall considerably from the level at which it would first stand, the total Customs revenue under the whole

adjusted system would certainly never approximate to disappearance.

In the next place, the effect could not be other than gradual. The idea which seems to be prevalent among opponents of the proposed modification of our fiscal system, that the mere fact of that modification being adopted would instantly prevent foreign supplies from reaching us, and thus profoundly modify the whole course of our external trade from one day to the next, is a patent absurdity. Our demand for imported food supplies would not fall off, or only imperceptibly so, and a moderate tax—or, for that matter, an immoderate tax—on the foreign supply would not cause armies of labourers in the colonies to start full-grown, on the instant, from the earth, or millions of acres of untilled ground suddenly, as if by magic, to be covered with waving crops. The transformation cannot but take place gradually, nor the fall of revenue consequent from it be anything but gradual also.

What, on the other hand, would that fall of revenue mean?

It would mean, in the first place, that the scheme was effectively producing the results predicted. It would mean that our home markets were being recovered for our home industries, and were being expanded into every part of the Empire; that the rapid accession of wealth and capital attendant upon large and expanding markets had recommenced for us and would continue; that thus the actual taxable capacity of the mother-country was increasing; and that if some sources of revenue were growing feebler, others were simultaneously growing stronger and could, if it were necessary, be taken advantage of.

It would mean, further, that the colonies, whose products would be supplanting in the mother-country those of foreign countries, would be increasing in wealth and prosperity more swiftly than ever, and would be supplied with ever-growing

means to take upon themselves that share in the burden of the Empire which they have already expressed their desire to assume so far as they are able. The mother-country would thus find herself to a large extent relieved by her children of the enormous weight of naval and military expenditure which she now has to bear for all; if her revenue fell owing to the preference given them, her need for it would fall still more rapidly by the aid they would bring her. She then would truly be the head of a mighty Federation, of which every member would contribute a generous portion of strength and of the sinews of war; the fall in her Customs revenue would really mean an immense accession of wealth and strength to the Empire.

It is true that this must also imply the raising and the settlement of questions of a different order and of the first importance, for all the members of such a Federation would require to be duly represented in the direction of Imperial affairs. These are questions which do not fall within the scope of the present volume. All that can be said here is that when they quit the stage of academical discussion and present themselves for practical decision, there need be no fear that the race which has brought them to pass will fail to solve them in such a manner as to cement lasting union.

CHAPTER XXIII

BUSINESS AND SENTIMENT

Final series of objections: (1) Preferential duties have been tried before and failed—Examination of Adam Smith's conclusions applied tendentially to preferential treatment—McCulloch's confutation as regards mother-country—Ricardo's arguments not applicable—In aspect of modern conditions none of Adam Smith's three conclusions here examined hold good as regards colonies—Nor that regarding mother-country—Adam Smith on benefit of 'colony trade'—Historical retrospect of preferential duties—From this two principal points observable—Effect of modern conditions in case of mother-country—In case of colonies—Professor Davidson's academic and practical objections—Former can be disregarded—Latter no longer hold good—Further change of conditions affecting both parent and daughter States—(2) Preferential treatment may cause intercolonial jealousies—Professor Bastable thereon—Difficulty of dealing with undefined objection—Treatment of supposititious case—Absurdity of attributing sordid motives to colonies—Remainder of final objections—Probability of difficulties in case of shortage of world-supply—And of reasonable attitude of colonies—Method of guarding against improbable different attitude—Are ties of sentiment all-sufficient?—Professor Davidson thereon—Colonial 'gratitude' and Professor Davidson—And Professor Ashley—Imperial ignorance—Necessity of acknowledgment that ties of sentiment are not all-sufficient—If this not recognised disruption of Empire the natural course of events—Professor Hewins on *laissez-faire* policy and its certain results—On constructive Imperialism—Mr. Chamberlain on necessity of relations of interest—Conclusion.

THERE remains, now, the final series of objections to be considered—those, namely, of which the first is that pre-

ferential duties have been tried before, that they failed, and were abandoned.

Here, again, there rises up before us that wall of national conservatism, that almost slavish clinging to precedent, which is one of the leading and most distinctive characteristics of our race : Because a system once fails or succeeds, that system under conditions, however radically different, must fail or succeed through all time. If once a success, then never let it be touched or altered in the slightest degree ; if once a failure, never let it under any circumstances be tried again. Both conclusions become bricks built into a wall of dogma in which it is almost as difficult to effect a breach as in that of the most uncompromising religion.

In spite, however, of the discouragement of all inquiry which this national frame of mind produces, the answer must still be ventured that the fact of preferential reciprocity between the mother-country and the colonies having once been abandoned as a failure is no valid reason why, if renewed under different conditions, it should fail again. The preferential duties, as they formerly existed, were a relict of the old monopoly system attacked with admirable vigour, although at somewhat tedious length, by Adam Smith in the fourth book of his '*Wealth of Nations*,' and of the restrictions which the mother-country placed upon the colonies in the management of their commerce. As no one would be so insane as to propose a reversion to such a system, or to anything at all approaching it, time would be wasted in examining it or proving that it would be unworkable now. Nevertheless, it might be advanced that, since preferential treatment would tend—that word dear to the heart of an economist !—to reproduce some aspects of the monopoly system, some, at least, of the lines of argument of Adam Smith would apply as well to the former as the latter.

Of these, the chief, perhaps, are those in which he develops the proposition that exclusive trade with the mother-country must render colonial produce dearer in all other countries, and must therefore cramp colonial industry; that it must render the produce of all other countries dearer in the colonies, and therefore again cramp their industry; and that since it transfers the employment of capital in the mother-country from foreign trade to colonial trade, owing to the superior profits of the latter, 'a new level of profits' is thereby established in the mother-country which causes her foreign trade with other countries to decay.

McCulloch deals rather roughly with Adam Smith in regard to the latter part of this argument, which he denies both in theory and in fact. 'It is singular,' he observed, 'how Dr. Smith should have said that the monopoly of the colony trade had driven us from some of the most productive branches of the trade of Europe, when, with the exception, perhaps, of the trade to France, our commerce with every other country was much greater than it had ever been before.' For those who love precedent, here, then, is one to show that foreign trade was not adversely affected even by the undoubtedly pernicious system of compulsory monopoly and restriction of colonial trade. As to the theory, McCulloch declared that the rate of profit is 'wholly unaffected by any extension of the field for the employment of capital; and as it is only by extending this field that the monopoly of the colony trade is supposed, by Dr. Smith, to raise the rate of profit, it follows that it cannot have the effects he has ascribed to it.' In this respect, however, 'Dr. Smith' was right and McCulloch was wrong, as must be acknowledged by those who rightly understand the advantages of 'production on a large scale.'

Ricardo, too, in his chapter on Colonial Trade,* combats the proposition in so far as the mother-country was

* 'Principles of Political Economy,' chap. xxv.

concerned, and endeavours to show that in the case of monopoly the 'mother-country may be benefited by oppressing her colony.' The case which he discussed, however, has no analogy whatever with reciprocal preferential treatment—even in tendency—and has, therefore, no interest for the present discussion.

Dealing with the question in the aspect of modern conditions, and of modern proposals, no one of the three conclusions arrived at by Adam Smith would appear to hold good. In the first place, there is no reason why colonial produce should be dearer in all or in any other foreign countries in so far as colonial action or that of the mother-country is responsible. Whether or no the colony received preferential treatment in the mother-country, any other country would be at perfect liberty to become a purchaser in the colonial market on precisely the same terms, and the cost of transport and other charges would be no greater (assuming distances to be the same) unless the purchasing country chose to impose an import duty on the colonial product. Without pausing to consider upon whom that duty would fall—a matter not germane to the point under discussion—it is quite clear that it alone would be the cause of the colonial industry being 'cramped' in regard to the foreign purchasing country, and that the reciprocal preference between the mother-country and the colony would have nothing whatever to do with it. It is possible, of course, that the increased demand of the parent-country, combined with the demand of other countries, might raise the price of a product in the colony. But this would clearly not cramp colonial trade; moreover, unless the product was one in which the colony had, or approximately had, a 'seller's monopoly,' it is not an effect which would go very far.

Again, it is quite as evident that the produce of all other countries need not be made dearer in the colony, since the process would merely be reversed, the only relative increased

charge being the import duty placed by the colony on the foreign product. This duty, however, already exists, and cannot possibly be abolished according to Free Trade writers, although I confess I have never been able clearly to perceive why, in their opinion, the fact of a country being a British colony should place it entirely outside the application of their immutable dogmas. Whatever may be the explanation of this, and whether or not the colonies could, if they wished, follow the former example of New South Wales, and adopt a Free Trade policy, it is perfectly manifest that they will not at present choose to do so, and that it is not reciprocal preference with the mother-country which has guided their choice. There is here, then, no reason for the additional cramping of their trade ; on the contrary, as previously argued, that trade would receive great expansion by increased commerce with the mother-country.

It might be replied that their trade would, nevertheless, be cramped should they elect to raise the duties in regard to foreign countries, instead of lowering them in regard to the mother-country, in order to grant her a preference. To some extent this would be true, and if that were the course to be pursued, the particular colony which adopted it would have to consider whether the corresponding advantage which it could then obtain in the mother-country would out-balance the disadvantage it had incurred with foreign countries, from the competition of which it had previously considered itself sufficiently protected. For reasons before given it may be considered more probable that it would reduce the duties in favour of the one country, than raise them against all others, electing thus to enjoy the full advantage of preference instead of curtailing it. In this case the colonies would not find their trade cramped on account of reciprocal preference with the mother-country.

How would it fare with the latter ? Would this reciprocal preference tend to establish in her 'a new level of profits'

to the detriment of her trade with foreign countries? If the whole body of her foreign trade, import and export, be considered, there can be no doubt whatever that it would be attenuated, owing to the imposition of import duties in order to establish the preference. But the attenuation would take place chiefly on the import side; as it may be expected that, as already argued, the exports would show but slight decrease, if any. On the other hand, seeing the immense increase of competition, the complete change in the means and conditions of commerce which have taken place since Adam Smith's time, and the essential necessity to every industrial nation of as large a market as possible, it is wildly improbable that profits really would attain a higher level for the reasons which he supposed. If they did so, the effect would certainly not be detrimental, as he expected, as it would mean that all the capital and labour of the United Kingdom was being employed in the home and colonial trade at a better rate than in foreign trade, and that, in spite of all competition, she had found in them those conditions praised, in almost lyrical terms, by Mr. Andrew Carnegie as existing in the United States.

Adam Smith, indeed, himself perceived, even under the conditions existing in his time, the beneficial effect of the 'colony trade,'* which he declared to be so great as to 'have in a great measure conquered the bad effects of the monopoly. It encourages,' he said, 'Great Britain to increase the surplus by continually presenting new equivalents to be exchanged for it'; it opened out a new market for manufactures, while the home manufactures constituted a new market for the produce of the land,† and this in spite of the disadvantages of distance which then existed, but

* His objections that it was a trade of 'distant returns,' and that it caused a direct foreign trade of consumption to be exchanged for a carrying trade, are manifestly no longer—if ever they were—applicable.

† Cf. List, *op. cit.*, book ii., chap. xxii.

which now have been so overcome that it is but little exaggeration to say that, were that 'free and natural state' of trade to exist within the Empire which he so much extolled, the market of each part would become the 'home market' of every other part.

In spite, however, of all these advantages, preferential duties, it is advanced, were nevertheless a failure, and were abolished. Why was this? I think a very brief historical retrospect will show why.*

As has been recalled above, the preferential treatment of the colonies was a relict of the original system of commercial monopoly and restriction which had been imposed upon them. But while they were thus restricted in all commercial affairs, they were, as Adam Smith noted, treated with the utmost liberality in the management of their own internal politics. Their liberty, he pointed out, 'is in every respect equal to that of their fellow-citizens at home, and is secured in the same manner by an assembly of the representatives of the people, who claim the sole right of imposing taxes for the support of the colony government.' The 'American colonies' having been lost under this system of political freedom and commercial restriction, it was, to some extent, reversed; the restrictions were relaxed, bounties were extended, and preferential trading with the colonies favoured as a compensation for increased political restraint, with the effect of greatly stimulating colonial industries—particularly, in the case of Canada, the lumber trade. The Continental wars of England, with their accompaniment of the Continental system, largely added to the stimulus, and while the colonies prospered greatly, the mother-country also received a considerable share of advantage from the compensation which her colonial trade brought her.

When, however, the wars ceased, and English statesmen, imbued with the teachings of Adam Smith, could once more

* See Professor Davidson, *op. cit.*, Chaps. I. and II.

turn their attention to reform with no more Continental systems to fear, they soon discovered that the advantage of reciprocal preference lay altogether on the side of the colonies, as, whether with it or without it, the complete industrial superiority of England over other nations gave her the monopoly of colonial markets. Thus, in so far as the preferential arrangements affected the mother-country at all, they operated to her disadvantage: she was uselessly raising prices in other markets against herself in order to maintain a commercial supremacy in the colonies which was hers in any case. In the age of triumphant reform, of the worship of freedom, and the erection of the policy of *laissez-faire* into a kind of new gospel received as a revelation from above, which then set in, and in which the colonies had their full share of advantage in the removal of political restraint, it was not possible that such conditions could be maintained. The preference granted to the colonies came to be looked upon as an intolerable burden—almost as a sacrilege—the more intolerable, too, that it had outlasted its political *raison d'être*.

Many restrictions upon colonial trade had been removed by the reforms previous to 1826, but especially in that year by Huskisson's measures. These admitted all foreign shipping into colonial ports, reserving, however, the trade between the colonies and the mother-country as a coasting trade. The freedom of trade was to be on reciprocal terms only, and the 'Crown duties' were maintained as a means of preference between the Mother Country and the colonies and among the colonies themselves.

This was, of course, only a step on the road; many colonial preferences were maintained—as many as eighty-two differential duties in favour of colonial products still existing in 1840—and, the industrial advantages of the mother-country being always supreme and the colonial markets assured without any preference, the Free Trade

reformers, in their zeal, soon regarded the colonies not only as worthless, but as a detrimental and expensive appanage to be discarded as soon as possible. This sentiment, indeed, was not confined to the reformers only, but some fifty years ago was pretty widely distributed among all men and all parties in England.

The preferences remaining in 1840 were rapidly reduced by the mother-country in her new-found enthusiasm for Free Trade. The final repeal of the Navigation Laws in 1849, annulling the coasting trade between the mother-country and the colonies and among the colonies themselves, was carried out despite the violent protests of the North American colonies, and the reduction of the preference on colonial timber by one-half in 1851, brought them almost to a state of revolt. The lumber trade was, in fact, thereby nearly ruined, and that having been the principal industry of those colonies, distress was spread broadcast. They were, however, able to turn their energies to other pursuits, and suffered less than did the West Indies, of which the sugar trade with the mother-country had been the sole mainstay, by the final withdrawal of preference on colonial sugar in 1854. In 1860 the last remains of colonial preference disappeared by the equalization of the duties on foreign and colonial timber at 1s. per load alike.

From this short retrospect two main points start out in prominent relief. First, that the abolition of the preferential duties was accomplished in pursuit of the ideal of Free Trade—a perfectly right ideal at the time, as has been previously pointed out more than once—with regard only to the interests of the mother-country, and with no heed for those of the colonies, as they themselves, with good grounds, pointed out. Secondly, that the reason why they were useless, or worse than useless, to the mother-country was that she was assured of the monopoly of the colonial markets without them, owing to her vast industrial superi-

ority over other nations. When, therefore, it is advanced that they failed, it must readily be admitted that they did, in so far as the mother-country was concerned, under the particular set of conditions prevailing during the period of their gradual abolition. Unless, however, those particular conditions exist still, it is an *ignoratio elenchi* to state that if again instituted they must inevitably fail because they failed before. And no one would, I think, be so bold as to state that the conditions are the same now as then. The United Kingdom is no longer industrially supreme; she can now scarcely claim the second place,—under existing conditions she certainly will not be able to do so long,—and as has been shown in the preceding chapter, she is relatively losing ground in the colonial markets.

Did preferential treatment fail, then, as regards the colonies? While it lasted I do not think that it can reasonably be said that it did. They advanced swiftly in prosperity and population, and the failure took place for them when it was withdrawn. It may be true, as Professor Davidson* points out, that a system of excessive preferences had checked agricultural development in Canada because lumbering was rendered relatively so far more profitable; but the objection raised to this on account of the 'artificial direction and concentration' which was thus given to the industry of the country is more academic than practical. The benefit of the preferences, as he admits, was real enough, and 'had the maintenance of the preferences been within their own control, this artificiality would have been a trivial matter in comparison with the real benefits of the preference; but it was dependent on the breath of English opinion, which had changed.' What was true of Canada in regard to lumber was true, in varying degrees, of every other colony in their own particular industries. The only real objection to preferences for the colonies lay in their

* *Op. cit.*, p. 50.

having absolutely no voice in either their proportion or their maintenance.

The change of conditions is, again, all-important here, whether the academic or practical objection be considered. In regard to the former, while the colonies have increased their industries in every direction, and notably the production of food-stuffs and of raw material of almost all kinds, the need of the mother-country for those products has increased, and it may be hoped will continue to increase. At the same time the world's supplies must contract relatively to the increase of population, as Professor Crookes has warned us, and clearly the demand on the extractive industries of the colonies cannot grow less. Moreover, it is not now proposed to establish any 'excessive preferences,' so that the encouragement to concentrate attention on any one industry to the neglect of others becomes a negligible quantity. It is clear, too, that if any class of colonial products is to be omitted from preferential treatment, it certainly is not that appertaining to agriculture; colonial farming will be favoured, not checked.

As to the practical objection, it must be remembered that the colonies have grown to be much more important communities during the last half-century, and will continue to grow at least as rapidly in the future—indeed, much more rapidly if the preferential scheme be carried out. Not only must their voices carry far greater weight, then, than formerly, from the mere increase of their power and importance, but the Imperial idea itself has taken deep root in the mother-country, where formerly it had found but a rocky soil in which it scarcely could keep alive. There will, therefore, be no inclination henceforth to treat matters in a high-handed manner, without any regard to colonial sentiment and interests—indeed, the mere statement of such a notion now is sufficient to reveal its absurdity. The former preferences, like their origins—monopoly and restrictions—were the out-

come of a purely home policy. They were imposed, modified, abrogated, to suit the wishes and policy of the mother-country only. If they are re-established it will be, not only after the deliberate adoption of the principle by the mother-country on the insistent demand of her daughter States, but after careful consultation and in complete agreement with each, so that the capacities of all, in relation to the parent State, may be given the best development according to their respective circumstances, and the parent State gather therefrom all possible advantage. Such agreements as these are essentially synallagmatic, and could not be terminated arbitrarily by either party without such ample notice as would leave plenty of time for a rearrangement of those parts of the scheme not found to work satisfactorily.

It might be said that each party, then, surrenders to the other some portion of its independence, of its right to manage its own affairs as it thinks best. That is the effect of any contract or treaty, and, indeed, the only meaning of such instruments. In the case of such agreements and such parties as we are now considering, however, it would rather be a merging of interests than a surrender of mutual rights, and where a notice to terminate is agreed upon, the principle of independence is in no way impaired. Nor need it be feared that, if the fundamental proposition is sound, as I have endeavoured, in the course of this work, to show, any friction need occur if the notice be served. It would mean only that some portions of the agreement required readjustment, and this, with the goodwill on both sides which may here be taken for granted, it would be no difficult task to arrange.

Thus the change of conditions which has taken place has completely altered the aspect of the problem whether the mother-country or the colonies be considered—in different ways for both ; one can no more reason from the ‘then’ to the ‘now’ in this matter than in that of the time required

for a journey from London to Sydney. This suggests another change of conditions affecting the United Kingdom and the colonies similarly, which has already been much insisted on. It may have been difficult when some portions of the Empire were months away—and dangerous months, too—and still more difficult, seeing the purposes for which some of the colonies were used, to realize that they might be, and should be, as much home to every Briton as the United Kingdom itself. Now thousands of miles have become, for travel, what hundreds used to be, and for verbal communication miles have become yards. Under such conditions Free Trade within the Empire, (which can now only be led up to by steps of preference), and Imperial federation to follow—as complete a solidarity of interest, whether commercial or, in the wider sense, political, among all parts of it as among the counties of England—every part in the truest sense a province of one country—are surely not such vain imaginings as some would have us believe! ‘The old fallacy,’ wrote Mr. W. Beach Thomas finely,* ‘still holds possession of our people that the sea severs, that it lies as a barrier, forbidding us. We are more afraid of it than the Elizabethans. We are not islanders, but continental to the backbone, as if there were not a continent of the sea, a cement of salt water, making inseparable the landed homes.’

Allowing, it is not infrequently said, that the principle of preferential treatment may be admissible, it must break down in the detail; it will be found impossible to accord an equal benefit to all the colonies, and fatal jealousies and heart-burnings must ensue. I find some difficulty in discussing this objection, as I am not quite sure what is meant. It does not seem to be one raised by the colonies themselves, and it has not got beyond the mere statement, without any explanatory description, in this country.

* *Monthly Review*, December, 1902, ‘Canada and Imperial Ignorance.’

Thus Professor Bastable* says that it is 'comparatively easy to establish what are called "horizontal" reductions of duties. To take off one-third or one-fourth all round is a simple proceeding, but this crude process has such diverse effects on different interests that further adjustment becomes urgently necessary. To arrange any system for the several parts of the British Empire in such a way as to balance fairly the claims of the different sets of producers would be almost hopeless.' What claims? Who has given any indication—in the colonial conferences, for instance—of bringing up any rival claim on behalf of one colony in the matter as against any other? Is it meant that if a preference of 2s. per quarter were established in favour of colonial wheat, the more distant colonies, owing to their greater distance and the consequent higher freights, would be less favoured than the nearer ones—the Australasian States, for example, as compared with the Dominion of Canada? If so, the objection does not seem to be very serious. There are various ways of meeting it. All the colonies have not the same advantages for producing the same commodities; it is not only one particular commodity which will be chosen out for preference: others must fall within the purview of the scheme. Again, what preference may be given to which colony must necessarily depend on what reciprocal advantage is given in the colonial market to the products of the mother-country.

To meet the differences of distance,—which, by the way, will probably tend to become more and more exiguous as means of transport are improved,—there might be a partial adoption of Professor Davidson's interesting suggestion† that the mother-country should grant subsidies to freight steamers running between England and colonial ports.‡

* *Economic Journal*, vol. xii., p. 511.

† *Of cit.*, p. 95

‡ The reason why, in my opinion, the adoption of Professor Davidson's scheme alone would not be sufficient is given in Appendix I.

Is it arrangements of the kind here sketched out that would occasion heart-burnings and jealousies? I cannot see a probability of anything of the kind, nor can I attribute to British statesmen, from whatever part of the Empire they may come, the utter want of statesmanship and foresight such a supposition implies. Are we to suppose that the representatives of the various parts of the Empire would arrive at the Imperial Conference which would, presumably, be necessary to settle the scheme, and would therefore be called at their own instance for the purpose of developing common Imperial interests, in the spirit of bargaining Jews, each determined to secure what he might consider his pound of flesh, and in case of failure to withdraw? The thing is absurd! It may be this which is meant by the 'sordid grabbing' for the gold of the mother-country, with probable exposure to which we are stated by some to be threatened should a preferential system be adopted. If so, the risk is non-existent.

As to the epithets applied, there is nothing sordid whatever in the desire of the colonies to secure a larger proportion of trade with the mother-country, and that thus the production of the Empire, as a whole, should be increased, unless, indeed, all efforts to develop commerce are sordid. It is bad economics, says Professor Bastable. As a matter of pure economics there is, no doubt, something to be said for his view. As a matter of political economics it is utterly impossible to agree with him. In the business workaday world, which is heedless of philosophical abstractions, nations, like the men and women of which they are composed, are very human. Human affairs are ruled by human motives, and no political economy is founded on a sound basis from which the human element of nationality is omitted.

This, however, is somewhat of a digression. Reverting to the question of 'jealousies and heart-burnings,' I feel, I repeat, at some disadvantage owing to the lack of a clear

and plain statement on the part of those who raise the objection. Possibly some opportunity may present itself in the future of discussing it when the disadvantage shall have been removed. Meanwhile, I cannot avoid the impression that it is raised without much reflection by those whose theories, or whose prejudices, are offended by the idea of any departure from our *laissez-faire* policy, or of the infringement of the dogmas of imaginary Free Trade.

The remainder of the final class of objections enumerated on p. 152 are no more weighty, and need but brief discussion. As previously observed, the probability of a shortage in the world's supply of food, such as would cause a serious rise in food prices, would be largely diminished by a system admittedly leading to a great development of the extractive industries in all the States or dependencies of the Empire. Their potential capacities of production are enormous, and, with the advantage they possess of being located in widely distant portions of the world's surface, they could scarcely be, in any degree of probability, simultaneously involved in the calamity of famine. Supposing this extremely improbable eventuality to occur, what is the risk? *Ex hypothesi*, they would have no surplus for export, and the temporary removal of the tax established to favour them would not in any way affect them.

Or let us suppose a more probable case in which, before the colonies were capable of supplying the needs of the mother-country, there was a failure of crops in the United States. Then both the rise in prices and the demand on colonial supplies would be such that the moderate preference in their favour would lose all significance, and its presence or absence would be of no importance to them. To imagine that under circumstances such as these, or under any circumstances whatever which would cause a rise in prices sufficient to cause distress in the United Kingdom, colonial statesmen would object to the temporary removal of the preference

in favour of the States which they govern, is to ascribe to them a want of ordinary appreciation, and the possession of a determination to quarrel on the first opportunity, which would be mere foolishness.

If, despite all probabilities, or rather all improbabilities, it is still considered necessary to relegate common-sense to the background, it would be perfectly practicable to establish as a fundamental condition of all colonial preferences that when the prices of products affected thereby rose above a certain level, the preferences should be abrogated until the effect of the catastrophe causing the rise had passed by, and prices had again reached their normal level. Ultimately, at some far-distant future, prices may, conceivably, rise normally above the level fixed. But when that time comes it may be confidently predicted that all necessity for preferences will automatically have disappeared.

The apprehension, therefore, that to add 'business' interests to ties of sentiment would tend to the disruption of the Empire instead of to closer union, is not one that need be seriously regarded. Is it, on the other hand, a correct contention that, apart from 'business' considerations, the ties of sentiment are all-sufficient? In regard to this I have been struck with one or two phrases let drop by Professor Davidson, who, as a man of high attainments in the domain of political economy, and as, therefore, probably a dispassionate observer of the trend of opinions and events in the State he has adopted, is worthy of very respectful attention.

Writing of the idea of reciprocity with the United States, he says: 'Unrestricted reciprocity now has few adherents in Canada, and the right of the mother-country to at least the treatment of the most favoured nation is supported by the practically unanimous conviction of the Canadian people, and, *while the present Imperial temper lasts* [the italics are mine] is not likely to be called in question.'*

* *Op. cit.*, p. 62.

It would seem that for the mother-country to be treated as the most favoured nation is the irreducible *minimum* of Imperial connection, but that only is assured 'while the present Imperial temper lasts.' How long is it likely to last if, in the words of Professor Hewins, 'the supposed economic interests of the United Kingdom are uniformly preferred to those of the colonies, as at present is very likely to be the case'?* Some indication, and no very encouraging one, may again be gathered from Professor Davidson:† 'The preferential tariff [granted by Canada] was a contribution to Imperial unity, and those who see in increased sentimental purchases an adequate return for the Canadian concession have little knowledge of what the colonies hope. So far, indeed, no other concession than this has been made; *but it stands with English honour that some adequate return should be made*' [the italics are again mine]. But supposing English honour does not consider that any adequate return, or any return at all, should be made? It is to be feared that then the present Imperial temper cannot last long, and that the reaction will be most dismal.

'The action of the mother-country in this matter is not merely a Canadian question,' says Professor Davidson‡; 'it is one in which all the colonies are interested. While no one of them would care to adopt the abandoned position and try to extort a concession in return for a concession, the fact that England had made no return and was prepared to make none would have a large influence on their course of action. Increased purchases will not be regarded by any colony as England's equivalent. Nor will it do to point to England's expenditure on commerce and defence, of which the colonies have the benefit. Gratitude, in politics at least, is a sense of favours to come; and in any case the question of defence

* *Beiträge zur neuesten Handelspolitik Deutschlands* (Schriften des Vereins für Socialpolitik, xci., vol. ii.).

† *Op. cit.*, p. 78.

‡ *Ibid.*

stands by itself, and is a problem for which, as the events of last year showed, a solution is being found.'

This matter of colonial 'gratitude' is one of extreme importance, and one on which there seem to exist profound delusions in the mother-country. 'Whatever may be thought of the merit of preferential arrangements within the Empire,' writes Professor Ashley*—again a man of distinguished attainments, who has every right to respectful attention, 'as one,' in his own words, 'who has made it his business to keep in touch with the sentiment of one great British colony'—'or of the success of this particular experiment [the Canadian preferential tariff], it is now evident that the Canadian tariff of 1897 opened a new period in the history of the relations between England and her colonies. . . . The real obstacle to greater British unity was the weakness, or absence, of common daily interests. . . . The prospect of closer union is encouraging; and, if the union is to be a permanent one, it will involve economic as well as political co-operation. The possibility of utilizing for English manufactures the iron ore of Newfoundland or the cotton of West Africa will become something more than a commercial question if the Imperial sense continues to grow more acute.' And then he drops 'a word or two of caution.' 'That the British Empire will hold together, and, holding together that the union will grow closer—for relations cannot remain stationary—is still (we ought to realize it) rather a matter of hope, of not-too-confident anticipation, than of comfortable assurance. And the future political structure must be constantly conceived of as a free federation of self-determining peoples, each of whom chooses to associate itself with the parent-country because it does itself spontaneously desire to do so. We in England must cease to talk, we must try to cease to think, as if we had made the colonies,

* Pp. 4 and 5 of the Introduction to 'The Adjustment of Wages.' Longmans, Green and Co., 1903.

and the colonies owed us a debt of gratitude. The colonies feel, and with some justice, that they have made themselves. And if we remember how large a part of the people of Canada and Australia are descended from working-folk who left England and Scotland and Ireland simply because they could not make a living here, we cannot be surprised at an absence of grateful emotion, an occasional acerbity of utterance, which would shock many Englishmen if they really knew.'

This complacent assumption by Britons at home of a natural feeling of 'gratitude' preserved by the colonies for the mother-country proceeds, in fact, from that colossal 'Imperial ignorance' against which Mr. W. Beach Thomas eloquently protested in the able paper before quoted.* Yet but a little reflection must show us how gratuitous that assumption is. Indeed, when we come to look into history, and to consider the slight appreciation shown of such loyalty and passionate attachment as that of Canada from the early times of the migration of the loyalists from the recently-formed United States until the present day; the beginnings of the Australasian colonies and the difficulties through which they were left to struggle and evolve a future for themselves as best they could; the historic and disastrous vacillation of policy which has so embittered the history of South Africa; the cold indifference and neglect generally evinced towards all until quite recent times, the wonder is rather, not that there has been no particular gratitude on the part of the colonies towards the mother-country to preserve, but that their loyalty and attachment to her have developed as they have.

It may be hoped that with the growing and healthy Imperial spirit, the increasing perception of the possibilities of the Empire, and the enlarged sense of our Imperial responsibilities which have now taken hold of us, the

* *Vide supra*, p. 254.

‘Imperial ignorance’ in which we have been steeped may at last disappear. The first outward and substantial proof that this is so will be our national acknowledgment that the ties of sentiment are *not* all-sufficient, and that, as Professor Davidson says,* the development of preferential relations within the Empire has become inevitable. We can no longer afford to blind our eyes to the natural trend of events, nor continue to prefer ‘the supposed economic interests of the United Kingdom to those of the colonies.’ It is curious, I would observe in passing, how invariably the orthodox school and the ‘convinced Free Trader’ attach themselves, with perfect self-complacency, to the business side of the question,—or what they conceive to be such,—and ascribe a spirit of ‘sordid grabbing’ to the colonies for doing precisely the same thing. The motives of both are the same, and what is generous and high-minded in the one cannot possibly become, by a mere change of *locus*, low-minded and sordid in the other.

We must, in fine, leave cant and prejudice, dogmatic conservatism, and the wranglings of the schools behind us, and adopt in their place the teachings of history, of statesmanship, of business, and of common-sense. ‘Man,’ once said Mr. Haweis, appealing to his congregation for the where-withal to pay his organist, ‘cannot only live on wind.’ Empires, it might be added, can no better exist on the pure air of sentiment alone. By our own policy in the past we have encouraged the great self-governing colonies to develop a strong national feeling within themselves as apart from the mother-country or any other portion of the Empire. As they grow stronger that national feeling must grow stronger also, and they feel that, unless the mother-country will form with them the potent ties of common interests, the time must inevitably come when it will be irresistible, and they must separate themselves completely, to work out their

* *Op. cit.*, p. 81.

destinies apart from her as great, independent, Anglo-Saxon nations.

Allowing for the characteristically explosive nature of Mr. Seddon's utterances, there can be no doubt that he voiced the general feeling of the colonies when he recently declared that if the mother-country would not adopt reciprocal preferential treatment with the colonies, New Zealand would enter into reciprocal arrangements with other countries, which might involve discrimination against Great Britain. It is not that the colonies will *wish* to do this, or merely do it out of spite, but that—unless, indeed, they adopt a complete policy of Free Trade, which is very improbable—it will be their natural evolution. The mother-country, as has been previously insisted, is so far from being industrially supreme and from enjoying an indisputable monopoly of the colonial markets, that she is actually losing relative ground in them, and if present conditions continue she will, with fluctuations, of course, but in a general sense, find her position grow only worse.

This means that the trade relations of the colonies with other countries must grow proportionately greater as they grow less with us, and ultimately that it will be too late to search for any remedy, since preference for us will have become commercially and economically unsound and impossible. Meanwhile the colonies will have grown rapidly in prosperity and power, and their separate national feeling more rapidly still; their political ambition will have increased, and be ever increasing; their one-time weakness have been transformed into strength. If Imperial federation presents great difficulties now, it will present impossibilities then. The end, under such circumstances, is certain: by our own fault we shall have brought to fulfilment the melancholy prediction of Turgot that 'colonies are like fruits which cling to the tree till they ripen.'

'It is strange,' says another distinguished authority already

quoted, 'that the system of thought which finds the basis of economic and political action in the doctrine of self-interest should look to sentiment for the preservation of the British Empire. The lack of political ambition and the weakness of the colonies are the real securities of the *laissez-faire* policy. Its consummation would be the disintegration of the Empire into a number of separate English-speaking States, whose interests must inevitably clash in different parts of the world.'*

Later on, in speaking of a purely political Imperialism, 'The ultimate basis of such an Imperialism,' he continues, 'is the need of the colonies for protection against foreign aggression and the power of the British Government to afford that protection and to maintain the freedom, justice, and security which Englishmen in every part of the world regard as their birthright. If these objects are not secured, the Empire must fall to pieces; but when they are completely realized the problem of Imperial consolidation still remains unsolved. It is still necessary to provide some security against the conflict between the loyalty and interest of the colonies which we noticed as the inevitable outcome of the *laissez-faire* policy. It is doubtful whether a purely political Imperialism can postpone such a conflict; it certainly cannot avert it. The limitations of such an Imperialism will be acutely felt long before any great crisis in the history of the Empire has been reached. It is a sufficiently generous ideal to inspire much enthusiasm for Imperial unity, as we have seen during the South African War, but the enthusiasm may easily be converted into distrust if the supposed economic interests of the United Kingdom are uniformly preferred to those of the colonies, as at present is very likely to be the case.' 'An industrial policy,' he says, 'divorced from an industrial, commercial, and educational policy is doomed to failure.'

* Professor Hewins, *op. cit.*, p. 108.

'Constructive Imperialism,' he argues a little further down, means 'the deliberate adoption of the Empire as distinguished from the United Kingdom as the basis of public policy, and, in particular, the substitution in our economic policy of Imperial interests for the interest of the consumer, those interests being measured, not necessarily by the immediate or even the ultimate gain of a purely economic character arising from a particular line of policy, but by the greater political or social stability, or the greater defensive power of the Empire.' Such Imperialism would, on the other hand, 'look for a great increase of the wealth and productive power of the Empire from the establishment of ever closer commercial relations between the mother-country and the colonies. If there were complete freedom of trade within the Empire, there can be no doubt, both on theoretical and historical grounds, that its productive power would be increased.* The Imperial policy thus advocated may 'on its worst side sometimes lead to undue insistence on what are supposed for the moment to be the interests of England while they are in reality the interests of a clique; at its best it is a splendid dream of a progressive, organized Empire, based upon command of the sea, the only ideal which can permanently appeal to Englishmen, because any alternative involves disintegration and the risk of fratricidal wars between the different branches of the British race.'

Mr. Chamberlain's declarations and warnings on this subject are delivered with no uncertain voice. 'The question

* In a letter to the *Times* of August 20, 1903, commenting upon a 'manifesto' communicated to the same paper (the *Times*, August 15) by certain professors of and lecturers on political economy, Professor Hewins returns to this subject, and invites 'the signatories to prove that the consolidation of the Empire is inconsistent with sound economics, that it would lead to a diminution of the productive power of the Empire, that it would be prejudicial to the economic interests of the United Kingdom considered as a separate entity, and that preferential tariffs do not form a necessary part of a policy of consolidation.'

of trade and of commerce is one of the greatest importance. Unless that is satisfactorily settled, I for one do not believe in a continued union of the Empire.* And again, a little later in the same speech: 'If we raise an issue of this kind, the answer will depend not upon petty personal considerations, not upon temporary interests, but upon whether the people of this country really have it in their hearts to do all that is necessary, even if it occasionally goes against their own prejudices, to consolidate an Empire which can only be maintained by relations of interest as well as by relations of sentiment.' Quite as strong were his words on a slightly later occasion in the House of Commons:† 'It is my honest opinion, which I felt bound to bring to the notice of the country, that if you make that reply to your colonies,' [viz., a declaration of inability to sustain their commercial interests should that course provoke animosity or opposition on the part of a foreign country], 'you must in the first place give up all hope whatever of anything in the nature of closer fiscal relations with them; and in the second place, in the absence of that closer fiscal relationship you must abandon all idea of securing closer political relationship. If you have neither closer fiscal relationship nor closer political relationship, then I continue of the same opinion which I expressed at Birmingham—that a united Empire will be beyond the bounds of possibility.'

The political acumen and the great abilities of the speaker are unquestioned, even by those who are his staunchest opponents. His single-mindedness of purpose in this matter has been acknowledged almost unanimously by men of all parties; he has had unrivalled opportunities for ascertaining and judging the exact ideas of every leading colonial statesman, and no one will accuse him of sluggishness in turning

* Speech at Birmingham, May 16, 1903.

† Debate on the 'Fiscal Policy of the Country' raised by Sir Charles Dilke, May 29, 1903.

all opportunities to the best advantage. He is a man of business, a great practical administrator, most unlikely to be led away by emotion, or allow his judgment to become befogged by sentimental vapourings and ideals. His opinion is, too, as I have demonstrated above, supported by considerable authorities of a more academic training. Confronted by this weight of authority and knowledge, are we to reply by professions of incredulity, or to entrench ourselves obstinately behind a wall of unreasoning conservatism and false deductions from misunderstood precedents? National interests and national policy call us the same way; let us not refuse the call and allow what may be a supreme opportunity of rectifying past mistakes to pass away.

APPENDICES

APPENDIX I

ON PROFESSOR DAVIDSON'S PROPOSALS

IN his discussion of what may be the most practical means of promoting trade facilities within the Empire, Professor Davidson lays down two axioms : (1) ' That no portion of the Empire should be expected to sacrifice what it conceives to be its economic interests to promote the good of the rest ' ; and (2) that no proposal ' should be put forward which calls for the abandonment of the traditional policy of any unit of the Empire except on its own initiation.'

Both may be—indeed, they must be—accepted, for no such insane proposal as one which would consist in forcing one part of the Empire to adopt any policy against its will could ever be considered for a moment. The ' ultimate sanction ' in such a case would be force, or, in other words, a civil war, in which one part of the Empire would be whipped into line by all the other parts—an inconceivable proposition. But it is a very far cry to argue from this that because, at present, most parts of the Empire are opposed to Free Trade within it, therefore that policy must be ruled out of court for ever. It might as well have been said in the earlier part of the nineteenth century that, because the majority of artisans were hostile to machinery which displaced hand-labour, therefore machinery could never be adopted ; or—more pertinently perhaps—because the granting of shipping subsidies was contrary to the policy of the mother-country at the time Professor Davidson wrote, therefore Professor Davidson's own proposal—and a most interesting proposal it is!—that she should grant subsidies to freight steamers running between England and colonial ports must be considered abortive for all time.

There is, as George Eliot wisely remarked, no such gratuitous

foolishness as prophecy, and the change in the sentiment in this country in regard to fiscal matters since the time at which Professor Davidson wrote is such, that his estimate of the reception which a proposal for preferential treatment of the colonies would receive here, might probably have been a good deal modified could he have seen a short way into the future. Still, in proposing or opposing a fresh scheme of policy, some estimate of probabilities must be allowed, and Professor Davidson cannot be blamed for attempting one ; nor, I hope, need I be blamed if I follow his example. It may, I think, well be supposed that, if a scheme of preferential duties in favour of the colonies is adopted, it will have the effect, and that at no very distant date, of leading them to the discovery that Free Trade with the mother-country will not only be no sacrifice, but a very considerable gain to them. As I have observed, Professor Davidson himself practically concedes that such a scheme would probably be followed by the withdrawal of colonial energy from pursuits to which, at any rate for the present, it is less well, to others for which it is better, fitted ; and as communities, no less than individuals, seek their interests where they can best be served, it is within the bounds of probability that that movement will be extensive, and will end in the demand for Free Trade with the mother-country, in which Professor Davidson disbelieves.

That it will be, or should be, demanded by a unanimous vote in each colony is beside the question : Free Trade was never demanded unanimously, nor has it ever been unanimously approved, in this country. But under those British representative principles which rule all the self-governing portions of the Empire the minority suffers not only patiently, but willingly, reserving only the inestimable privilege of talk. The Free Trade to which I especially allude is, I repeat, Free Trade with the mother-country. I am even hopeful enough to believe that Free Trade among the colonies themselves will follow as a natural corollary ; but that must probably be a second step which may require still further education before it will be taken.

The proposal for preferential treatment, in so far as the colonies are concerned, meets Professor Davidson's principal and well-justified requirement that it should follow the line of least resistance. 'The colonies,' he says, 'are passionately in earnest about this matter, in which they see their greatest possibility of develop-

ment.* Apparently a very important section of the population of the mother-country is equally in earnest, and, seeing that some form of Protection must force itself upon her soon, that section will be ere long, if it is not now, an important majority. This Professor Davidson contests, but, with all respect, I venture to think that he has a quite erroneous impression of the trend of events, and of feeling, in the mother-country at the present time. He makes two assumptions, both of which there is good reason for believing to be unwarranted. 'The Free Trade sentiment in England,' he says, 'cannot be essentially weakened. There may be some who would accept Protection against foreign imported goods, others who would be in favour of a re-enactment of the Corn Laws, but these two wings of a possible Protectionist party cherish contradictory ideals, and would fall out as soon as they come to practical legislation.' He proceeds to argue that the English Protectionist can only through confusion of thought be considered Imperialist;—that his ideas, in fact, are narrow, and that his vision does not penetrate beyond the British Islands.

The premisses are all wrong ; the conclusion is necessarily faulty also. The idea that any considerable portion of the inhabitants of Great Britain would, in order to remedy the growing weakness of her industrial position, endeavour to obtain a return to the state of affairs obtaining before the Repeal of the Corn Laws, is so fantastic as to be laughable to anyone living here who is capable of observation and thought. The system of free imports which has reigned supreme in these islands for nearly fifty years has left its deep and ineradicable impress ; the times of a home agriculture fostered under a kind of hothouse protection, and of prohibition, have gone, never to return. But the examples of other nations which have pursued a policy of Protection ; the fact that to whatever part of the world he may turn, except those in which his influence may be predominant, the Briton finds the door shut against him ; the further fact that attempts are continually being made to raise up fresh barriers in his way, and that he must eventually in all probability fight to keep them open, leave their very deep impress also. He is coming fast to the conclusion that some protection he must have, even in his home markets, to enable him to withstand the increasingly formidable attacks which foreigners are able—to no small extent, owing to their different system—to marshal against

* *Op. cit.*, p. 85.

him, and he is growing ever more and more conscious that the only doors on which he may rely are those controlled by his fellow-Britons beyond the seas. These already beseech him to let them hold their doors ajar if he will throw his own still wider open to them by partially closing them to his foreign rivals. The argument thus appeals to him in two ways. On the one hand, he sees himself placed on a ground of fairer play with his foreign competitors; on the other, he sees before him an almost indefinite expansion of mutual advantage with his own kinsfolk. New-found but none the less hearty and deep-seated Imperialist sentiments come strongly to reinforce these lines of thought. There are still difficulties in the way of their being acted upon. The timorous, the prejudiced, the interested, will try to drag him on one side, and will shout ruin and disaster at him as he turns upon his new road. But facts will be stronger than prejudice, fear, or interested cliques, and though his first movements may be a little slow, he will not be deterred. Along that path will be found the line of least resistance.

As to the second requisite laid down by Professor Davidson, he himself acknowledges that the scheme of preferential duties meets it, since it need not in any way interfere with the liberty of each unit of the Empire fully to control its own domestic policy. It is not at all clear why he should conceive that Free Trade within the Empire should interfere any the more, or necessitate either a 'common treasury or a common Board of Trade.' Nothing in the shape of an Imperial Customs Union would be necessary, in the sense usually understood; for each unit of the Empire could establish any tariff it pleased, without the least reference to any other part, against foreign countries, while admitting all products from within the Empire free. I do not mean to say that Free Trade within the Empire is easy of establishment: I am well aware that it is not. But it is evident that those particular objections raised by Professor Davidson cannot hold good, or form any real obstacle to it.

His own proposal to grant subsidies to freight steamers running between England (the United Kingdom?) and colonial ports is one of great interest, and might, as observed,* very well be partially carried into effect. I would, however, make two observations on it. In the eyes of the orthodox Free Traders of this country shipping subsidies are almost as *anathema maranatha* as Protection in any

* *Vide* p. 255.

other form. Therefore as answering to the test of 'the line of least resistance' his proposal presents the same objections, if such they are, as those raised by himself against preferential treatment. In the next place, from the point of view above discussed—and this is a point of view much more widely held than Professor Davidson would be prepared to credit—his proposal fails again, *i.e.*, in the essential matter of 'fair play' to the British producer. Taken by itself that proposal is insufficient, because—surprising as this will seem to him—it does not include the protection for home markets in the United Kingdom which is becoming inevitable. Perhaps the real road will be found to be, as is so often the case, the *via felix media*—a judicious mixture of Professor Davidson's proposal with a low preferential tariff.

APPENDIX II.

SUGGESTED TAXATION OF IMPORTS OF FOODSTUFFS
FROM FOREIGN COUNTRIES RETAINED FOR HOME
CONSUMPTION.

Articles Taxed.	Amount of Tax.	Percentage of Foreign to Total Imports.*	Revenue produced by Tax on Foreign Imports retained for Home Consumption.*
			£
Animals	10s. per head.	85.37	493,700
Bacon and Hams ...	4s. per cwt.	91.52	1,223,000
Beef (fresh and salted)	4s. ..	80.58	561,000
Mutton	3s. 1d. ..	40.08	200,000
Pork (fresh and salted)	3s. 8d. ..	97.21	103,200
Meat (unenumerated and preserved) ...	5s. ..	75.05	173,600
Butter	10s. 2d. ..	85.39	1,379,400
Margarine	5s. 4d. ..	99.18	244,000
Cheese	4s. 8d. ..	40.32	218,200
Condensed Milk ...	3s. 7d. ..	99.91	118,600
Eggs	8d. per great hundred.	95.45	475,000
Wheat	1s. 2d. per cwt.	84.05	3,268,000
Wheatmeal and Flour	1s. 6d. ..	91.12	1,442,200
Oats	1s. ..	96.19	766,800
Oatmeal and Groats...	1s. 4d. ..	84.36	42,700
Barley	1s. ..	98.62	987,600
Raw Cocoa	2d. per lb. (extra)	50.77	84,300
Cocoa (manufactures of)	2d.	99.95	48,000
Rice	1s. per cwt.	47.87	73,300
Maize	2½d. ..	90.0	522,000
Maize-meal	6½d. ..	100.0	33,700
Coffee	{ Remit 1d. per lb. on colonial coffee; add 1d. per lb. on foreign coffee. }	78.16	80,100
Tea	{ Remit ½d. per lb. on colonial tea; add 1d. per lb. on foreign tea. }	12.28	-403,000
Total			£12,166,000

* The two last columns are worked out on the five-yearly average 1896-1900.

APPENDIX III

TABLE I.

AVERAGE VALUE OF IMPORTS INTO THE UNDER-MENTIONED COUNTRIES FROM THE UNITED KINGDOM
IN THE YEARS STATED.

(From the returns of the several countries.)

Countries.	Average Value of Imports in 1898-1900.		Per-centage of Imports from United Kingdom.	Increase (+) or Decrease (-) in Imports from United Kingdom between 1884-1885 and 1898-1900.		Increase (+) or Decrease (-) in Total Imports between 1884-1885 and 1898-1900.	
	From United Kingdom.	From all Countries.		Amount.	Per Cent.	Amount.	Per Cent.
	Thousand £	Thousand £		Thousand £		Thousand £	
Russia in Europe	12,504	57,863	22	+ a 1,647	15.2	+ a 16,229	+ 39.0
Norway	4,869	16,691	29	+ a 2,760	130.9	+ a 8,551	+ 105.0
*Sweden	8,708	27,685	31	+ 3,880	80.3	+ 9,190	+ 49.7
Denmark	5,663	27,428	21	+ 2,418	74.5	+ 12,890	+ 88.7
*German Empire	32,680	272,155	12	+ 8,687	36.2	+ 117,025	+ 75.4
*Holland	23,174	157,780	15	- 1,254	5.1	+ 65,282	+ 70.6
Belgium	11,955	86,943	14	+ 4,885	69.1	+ 31,487	+ 56.8
France	23,606	182,516	13	+ 538	2.3	+ 13,878	+ 8.2
Portugal	3,865	11,923	32	+ c 1,186	44.3	+ c 4,039	+ 51.2
*Switzerland	2,263	48,601	5	+ c 319	16.4	+ c 18,740	+ 62.8
*Spain	8,437	36,737	23	+ 2,788	49.4	+ 5,849	+ 18.9
*Italy	12,163	61,818	20	+ a 305	2.6	+ a 2,739	+ 4.6
Austria-Hungary	6,050	68,678	9	-	-	-	-
*Greece	1,351	5,690	24	+ d 94	7.5	+ d 416	+ 7.9
Roumania	2,724	14,464	19	+ 523	23.8	+ 3,194	+ 28.3
†Bulgaria	497	2,390	21	- c 94	15.9	+ c 224	+ 10.3
Total (exclusive of Austria-Hungary) †	154,459	1,010,684	15	+ 28,682	22.8	+ 309,733	+ 44.2

Egypt ...	...	...	4,732	12,514	38	+ a	1,322	+	38.8	+ a	3,827	+	44.1
United States	...	...	26,876	150,218	18	- a	4,618	-	14.7	+ a	19,617	+	15.0
Argentine Republic	...	...	8,091	22,518	36	+ a	1,455	+	21.9	+ a	3,739	+	19.9
Uruguay	...	...	1,387	5,168	27	+ a	12	+	0.9	+ a	305	+	6.3
*Chili ...	...	...	3,131	8,426	37	-	623	-	16.6	-	1,260	-	13.0
*Mexico	...	...	1,853	10,386	18	-	-	-	-	-	-	-	-
Total (exclusive of Mexico)	...	...	39,485	186,330	21	-	3,774	-	8.7	+ 22,401	+	13.7	
China ...	...	...	6,049	35,747	17	+	510	+	9.2	+ 13,544	+	61.0	
Japan ^j	...	...	5,589	26,455	21	+	3,010	+	116.7	+ 20,662	+	356.7	
British Possessions:	...	...	...	...	...	...	...	...	...	...	...	...	...
*India ^k	...	...	g	58,062	g	+	7,904	+	15.8	+ 23,066	+	34.3	
*Straits Settlements	...	...	...	3,068	...	-	799	-	20.7	+	9,352	+	51.3
*Ceylon	...	...	...	2,029	...	+	1,037	+	104.5	+	3,588	+	95.0
*Mauritius ^k	...	...	...	709	...	+	136	+	23.7	+	333	+	12.6
*Australasia	...	...	...	28,259	...	-	3,953	-	12.3	+	9,619	+	15.0
*Natal	...	...	h	4,205	h	+	2,934	+	230.8	+	4,664	+	292.0
*Cape of Good Hope	...	...	h	12,557	h	+	8,607	+	217.9	+	13,397	+	261.4
*North America	...	...	f	8,221	f	-	1,167	-	12.4	+	9,681	+	41.2
*West Indies	...	...	...	2,630	...	+	212	+	8.8	+	237	+	3.8
*British Guiana	...	...	g	727	g	-	185	-	20.3	-	372	-	21.5
Total	...	...	120,467	267,636	45	+	14,726	+	13.9	+ 73,565	+	37.9	

* Including bullion and specie.

† Including bullion.

‡ Including the value of ships and also the 'Veredelungswetehr' for home account.

§ Calculated on the average of 1885-1886.

|| Including silver bullion.

a Calculated on the average of 1885-1886.

b Includes British Possessions in the Mediterranean.

c Calculated on the average of 1885-1886.

d Average of years ended March 31 following those stated above.

e Includes value of goods imported for transit overlaid into the interior.

f Includes Formosa.

g The value of imports into India and Mauritius is given in tens of thousands of rupees.

h The countries of origin of imports and of destination of exports were not distinguished in the Austro-Hungarian Trade Accounts previous to 1891.

i The figures for Russia, Greece, Roumania, Japan, and the West Indies represent the averages of 1898 and 1899 only.

TABLE II.

AVERAGE VALUE OF IMPORTS INTO THE UNDER-MENTIONED COUNTRIES FROM THE GERMAN EMPIRE
IN THE YEARS STATED.

(From the returns of the several countries.)

Countries.	Average Value of Imports in 1893-1900.		Per-centage of Imports from German Empire.	Increase (+) or Decrease (-) in Imports from German Empire between 1884-1885 and 1898-1900.		Increase (+) or Decrease (-) in Total Imports between 1884-1885 and 1898-1900.	
	From German Empire.	From all Countries.		Amount.	Per Cent.	Amount.	Per Cent.
Russia in Europe	Thousand £ 22,720	Thousand £ 57,863	39	Thousand £ + b 7,556	+ 49.8	Thousand £ + b 16,229	+ 39.0
Norway	4,721	16,691	28	+ b 2,397	+ 103.1	+ b 8,551	+ 105.0
*Sweden	9,816	27,685	35	+ 4,545	+ 86.2	+ 9,190	+ 49.7
Denmark	7,991	27,428	29	+ 2,654	+ 49.7	+ 12,890	+ 88.7
*Holland	29,630	157,780	19	+ 4,636	+ 18.6	+ 65,282	+ 70.6
Belgium	11,395	86,943	13	+ 4,158	+ 57.5	+ 31,487	+ 56.8
France	14,947	182,516	8	- 873	- 5.5	+ 13,878	+ 8.2
Portugal	1,688	11,923	14	+ c 737	+ 77.5	+ c 4,039	+ 51.2
*Switzerland	13,580	48,601	28	+ c 3,371	+ 33.0	+ c 18,740	+ 62.8
*Spain	2,484	36,737	7	- 1,185	- 32.3	+ 5,849	+ 18.9
*Italy	7,418	61,818	12	+ b 2,612	+ 54.3	+ b 2,739	+ 4.6
Austria-Hungary	24,983	68,678	36	-	-	-	-
*Greece	421	5,960	7	+ d 292	+ 226.4	+ d 416	+ 7.9
Roumania	4,033	14,464	28	+ 2,336	+ 137.7	+ 3,194	+ 28.3
+Bulgaria	314	2,390	13	+ c 230	+ 273.8	+ c 224	+ 10.3
Total (exclusive of Austria-Hungary) ^j	131,158	738,529	18	+ 33,466	+ 34.3	+ 192,708	+ 35.3
Egypt	394	12,514	3	+ b 356	+ 936.8	+ b 3,827	+ 44.1

United States	17,451	150,218	12	+ b 3,742	+	27.3	+ b 19,617	+ 15.0
*Argentine Republic	2,812	22,518	12	+ b 1,200	+	74.4	+ b 3,739	+ 19.9
Uruguay	587	5,168	11	+ b	+	25.7	+ b	+ 6.3
*Chili	2,262	8,426	27	+ 452	+	25.0	- 1,260	- 13.0
*Mexico	1,142	10,386	11	—	—	—	—	—
Total (exclusive of Mexico)	23,112	186,330	12	+ 5,514	+	31.3	+ 22,401	+ 13.7
China	a	35,747	—	—	—	—	+ 13,544	+ 61.0
Japan	2,211	26,455	8	+ 1,796	+	432.8	+ 20,662	+ 356.7
British Possessions :								
*India	f 2,006	f 90,225	2.2	+ 1,899	+	1774.8	+ 23,066	+ 34.3
*Straits Settlements	580	27,597	2.1	+ 350	+	152.2	+ 9,352	+ 51.3
*Ceylon	141	7,366	1.9	+ 140	+	14000.0	+ 3,588	+ 95.0
*Mauritius	13	2,982	0.4	- 60	-	82.2	+ 333	+ 12.6
*Australasia	2,377	73,621	3.2	+ 1,790	+	304.9	+ 9,619	+ 15.0
*Natal	196	6,261	3.1	+ 173	+	752.2	+ 4,664	+ 292.0
*Cape of Good Hope	682	18,523	3.7	+ 635	+	1351.1	+ 13,397	+ 261.4
*North America	e 1,464	e 33,188	4.4	+ 1,040	+	245.3	+ 9,681	+ 41.2
*West Indies	64	6,512	1.0	+ 38	+	146.2	+ 237	+ 3.8
*British Guiana	f 1	f 1,361	0.1	- 2	-	66.7	- 372	- 21.5
Total	7,524	267,636	2.8	+ 6,003	+	394.7	+ 73,565	+ 37.9

* Including bullion and specie.

† Including bullion.

‡ Including silver bullion.

§ Including diamonds (in the rough) imported.

a Not distinguished.

b Calculated on the average of 1884-1886.

c Calculated on the average of 1885-1886.

d Calculated on the figures for 1887.

e Average of years ended March 31 following those stated above.

f *Indica's* value of goods imported for transit overland into the interior.

g The value of imports into India and Mauritius is given in tens of thousands of rupees.

h See note i, Table I.

i Including Formosa.

NOTE.—The figures for Russia, Greece, Roumania, Japan, and the West Indies represent the averages of 1898 and 1899 only.

TABLE III.

AVERAGE VALUE OF IMPORTS INTO THE UNDER-MENTIONED COUNTRIES FROM FRANCE
IN THE YEARS STATED.

(From the returns of the several countries.)

Countries.	Average Value of Imports in 1898-1900.		Per-centage of Imports from France.	Increase (+) or Decrease (-) in Imports from France between 1884-1885 and 1898-1900.		Increase (+) or Decrease (-) in Total Imports between 1884-1885 and 1898-1900.	
	From France.	From all Countries.		Amount.	Per Cent.	Amount.	Per Cent.
Russia in Europe	Thousand £ 2,795	Thousand £ 57,863	5	Thousand £ + b 1,325	+ 90.1	Thousand £ + b 16,229	+ 39.0
Norway	269	16,691	2	+ b 16	+ 6.3	+ b 8,551	+ 105.0
*Sweden	494	27,685	2	+ 30	+ 6.5	+ 9,190	+ 49.7
Denmark	651	27,428	2	+ 354	+ 119.2	+ 12,890	+ 88.7
†German Empire	c 14,672	272,155	5	+ 3,130	+ 27.1	+ 117,025	+ 75.4
*Holland	1,835	157,780	1	+ 371	+ 25.3	+ 65,282	+ 70.6
Belgium	14,352	86,943	17	+ 3,644	+ 34.0	+ 31,487	+ 56.8
Portugal	1,054	11,923	9	- d 27	- 2.5	+ d 4,039	+ 51.2
*Switzerland	11,760	48,601	24	+ d 4,413	+ 60.1	+ d 18,740	+ 62.8
*Spain	5,637	36,737	15	- 2,173	- 27.8	+ 5,849	+ 18.9
*Italy	5,973	61,818	10	- b 7,410	- 55.4	+ b 2,739	+ 4.6
Austria-Hungary	2,196	68,678	3	-	-	-	-
*Greece	449	5,690	8	+ e 33	+ 7.9	+ e 416	+ 7.9
Roumania	959	14,464	7	+ 197	+ 25.9	+ 3,194	+ 28.3
†Bulgaria	142	2,390	6	+ d 24	+ 20.3	+ d 224	+ 10.3
Total (exclusive of Austria-Hungary) m	61,042	828,168	7	+ 3,927	+ 6.9	+ 295,855	+ 55.6
Egypt ...	f 1,178	12,514	9	+ b 186	+ 18.7	+ b 3,827	+ 44.1

United States	...	13,048	150,218	9	-	-	17	+ b 19,617	+	150
*Argentine Republic	...	2,165	22,518	10	-	-	328	+ b 3,739	+	199
*Uruguay	...	473	5,168	9	-	-	439	+ b 305	+	63
*Chili	...	503	8,426	6	-	-	679	- 1,260	-	130
*Mexico	...	1,207	10,386	12	-	-	-	-	-	-
Total (exclusive of Mexico)		16,189	186,330	9	-	-	2,720	+ 22,401	+	137
China	...	a	35,747	-	-	-	-	+ 13,544	+	610
Japan	...	647	20,455	2	+	350	1178	+ 20,662	+	3567
British Possessions :										
*India	...	h	1,230	14	+	557	828	+ 23,066	+	343
*Straits Settlements	...	131	27,597	05	-	44	251	+ 9,352	+	513
*Ceylon	...	42	7,306	06	+	30	2500	+ 3,588	+	950
*Mauritius	...	266	2,982	89	-	162	379	+ 333	+	126
*Australasia	...	528	73,621	07	+	20	39	+ 9,619	+	150
*Natal	...	16	6,261	03	+	16	-	+ 4,664	+	2920
*Cape of Good Hope	...	79	18,523	04	+	79	-	+ 13,397	+	2614
*North America	...	g	33,188	25	+	456	1191	+ 9,681	+	412
*West Indies	...	86	6,512	13	-	59	407	+ 237	+	38
*British Guiana	...	7	1,301	05	-	12	632	- 372	-	215
Total	...	3,224	267,636	12	+	881	376	+ 73,565	+	379

* Including bullion and specie.

† Including bullion.

‡ Including the value of ships, and also the 'Vere-de-lage' vessels for home account.

§ Including diamonds (in the rough) imported.

|| Not distinguished.

¶ Includes imports from Algeria and Tunis.

d Calculated on the average of 1881-1886.

e Calculated on the figures of 1887.

f Average of years ended March 31 following those stated above.

g Average of years ended June 30.

h Average of years ended March 31 following those stated above.

i Average of years ended June 30.

j Average of years ended March 31 following those stated above.

k The value of imports into India and Mauritius is given in tens of thousands of rupees.

l Including Formosa.

m See note f, Table I.

NOTE.—The figures for Russia, Greece, Rumania, Japan, and the West Indies represent the averages of 1893 and 1899 only.

TABLE IV.

AVERAGE VALUE OF IMPORTS INTO THE UNDER-MENTIONED COUNTRIES FROM THE UNITED STATES
IN THE YEARS STATED.

(From the returns of the several countries.)

Countries.	Average Value of Imports in 1898-1900.		Per-centage of Imports from United States.	Increase (+) or Decrease (-) in Imports from United States between 1884-1885 and 1898-1900.		Increase (+) or Decrease (-) in Total Imports between 1884-1885 and 1898-1900.	
	From United States.	From all Countries.		Amount.	Per Cent.	Amount.	Per Cent.
	Thousand £	Thousand £		Thousand £		Thousand £	
Russia in Europe	4,803	57,863	8	+ c 1,636	+ 51.7	+ c 16,229	+ 39.0
Norway	936	16,601	6	+ c 570	+ 155.8	+ c 8,551	+ 105.0
*Sweden	556	27,685	2	+ 167	+ 42.9	+ 9,190	+ 49.7
Denmark†	4,075	27,428	15	+ 3,205	+ 368.4	+ 12,890	+ 88.7
†German Empire	46,226	272,155	17	+ 40,051	+ 648.6	+ 117,025	+ 75.4
*Holland	23,888	157,780	15	+ 18,834	+ 372.7	+ 65,282	+ 70.6
Belgium	11,331	86,943	13	+ 5,710	+ 101.6	+ 31,487	+ 56.8
France	20,801	182,516	11	+ 9,773	+ 88.6	+ 13,878	+ 8.2
Portugal	1,805	11,923	15	+ d 725	+ 67.1	+ d 4,039	+ 51.2
*Switzerland	2,560	48,601	5	+ d 1,778	+ 227.4	+ d 18,740	+ 62.8
*Spain	4,264	36,737	12	+ 647	+ 17.9	+ 5,849	+ 18.9
*Italy	7,518	61,818	12	+ c 5,012	+ 200.0	+ c 2,739	+ 4.6
Austria-Hungary	5,723	68,678	8	—	—	—	—
*Greece	176	5,690	3	+ e 176	—	+ e 416	+ 7.9
Roumania	75	14,464	0.5	+ 67	+ 837.5	+ 3,194	+ 28.3
†Bulgaria	11	2,390	0.5	- d 5	- 31.2	+ d 224	+ 10.8
Total (exclusive of Austria-Hungary) †	129,025	1,010,684	13	+ 88,346	+ 217.2	+ 309,733	+ 44.2

TABLE V.

STATEMENT SHOWING THE AVERAGE ANNUAL AMOUNT OF THE IMPORTS OF THE UNDER-MENTIONED COUNTRIES IN 1893-1895 AND 1898-1900, AND THE PROPORTION OF THEIR IMPORTS FROM THE UNITED KINGDOM, GERMANY, FRANCE, AND THE UNITED STATES RESPECTIVELY.*

Countries.	Total Imports (Millions Sterling).		Proportion from—							
			United Kingdom.		Germany.		France.		United States.	
	Average for 1893-1895.	Average for 1898-1900.	In 1893-1895.	In 1898-1900.	In 1893-1895.	In 1898-1900.	In 1893-1895.	In 1898-1900.	In 1893-1895.	In 1898-1900.
	£	£	Per Cent.	Per Cent.	Per Cent.	Per Cent.	Per Cent.	Per Cent.	Per Cent.	Per Cent.
Russia in Europe	44	58	27	22	28	39	6	5	9	8
Norway	11	17	28	29	27	28	2	2	5	6
Sweden	19	28	27	31	34	35	2	2	3	2
Denmark	18½	27	21	21	34	29	2	2	5	15
Belgium	63	87	12	14	12	13	18	17	8	13
Portugal	9	12	28	32	12	14	10	9	19	15
Switzerland	35	49	5	5	28	28	16	24	4	5
Spain	31½	37	20	23	3	7	26	15	11	12
Italy	48	62	20	20	12	12	16	10	9	12
Austria-Hungary	57	69	10	9	37	36	3	3	4	8
Greece	4	6	28	24	1	7	7	8	3	3
Roumania	17	14	21	19	28	28	8	7	0.3	0.5
Bulgaria	3	2	21	21	13	13	4	6	0.2	0.5

Egypt ...	...	9	13	34	38	2	3	11	9	0.5	2
Argentine Republic	...	19	23	37	36	12	12	11	10	9	12
Uruguay	...	5	5	32	27	11	11	10	9	7	8
Chile	...	16	8	44	37	27	27	9	6	6	9
Mexico	...	7	10	17	18	8	11	14	12	52	49
China	...	29	36	18	17	†	†	†	†	4	8
Japan	...	13	26	33	21	7	8	4	2	8	15
British India	...	86	90	72	64	2.0	2.2	1.3	1.4	1.8	1.5
Straits Settlements	...	21	28	14	11	1.5	2.1	0.7	0.5	0.8	0.5
Ceylon	...	4	7	25	28	0.5	1.9	0.3	0.6	—	0.3
Mauritius	...	3	3	20	24	0.8	0.4	1.2	0.7	2.1	2.5
Australasia	...	51	74	41	38	1.7	3.2	0.3	0.3	3.1	6.9
Natal	...	2	6	72	67	2.2	3.1	0.1	8.9	4.8	9.0
Cape of Good Hope	...	14	19	81	68	3.5	3.7	0.2	0.4	4.5	10.9
British North America	...	26	33	35	25	3.9	4.4	2.2	2.5	45.9	59.3
British West Indies	...	7	7	44	40	0.9	1.0	1.7	1.3	30.7	34.8
British Guiana	...	2	1	54	53	—	0.1	0.9	0.5	25.8	28.3

* Holland is omitted from this Table, though included in the others. The foreign trade of Holland is apparently very much of a transit or *quasi*-transit character, and for this reason the figures are not sufficiently comparable with those for the countries included in this Table. It should also be remarked that, as far as regards exports, Dutch colonial produce is included under the head of domestic produce in Holland. The figures are retained *quantum valent* in the Tables in the Appendix.

† Not distinguished.

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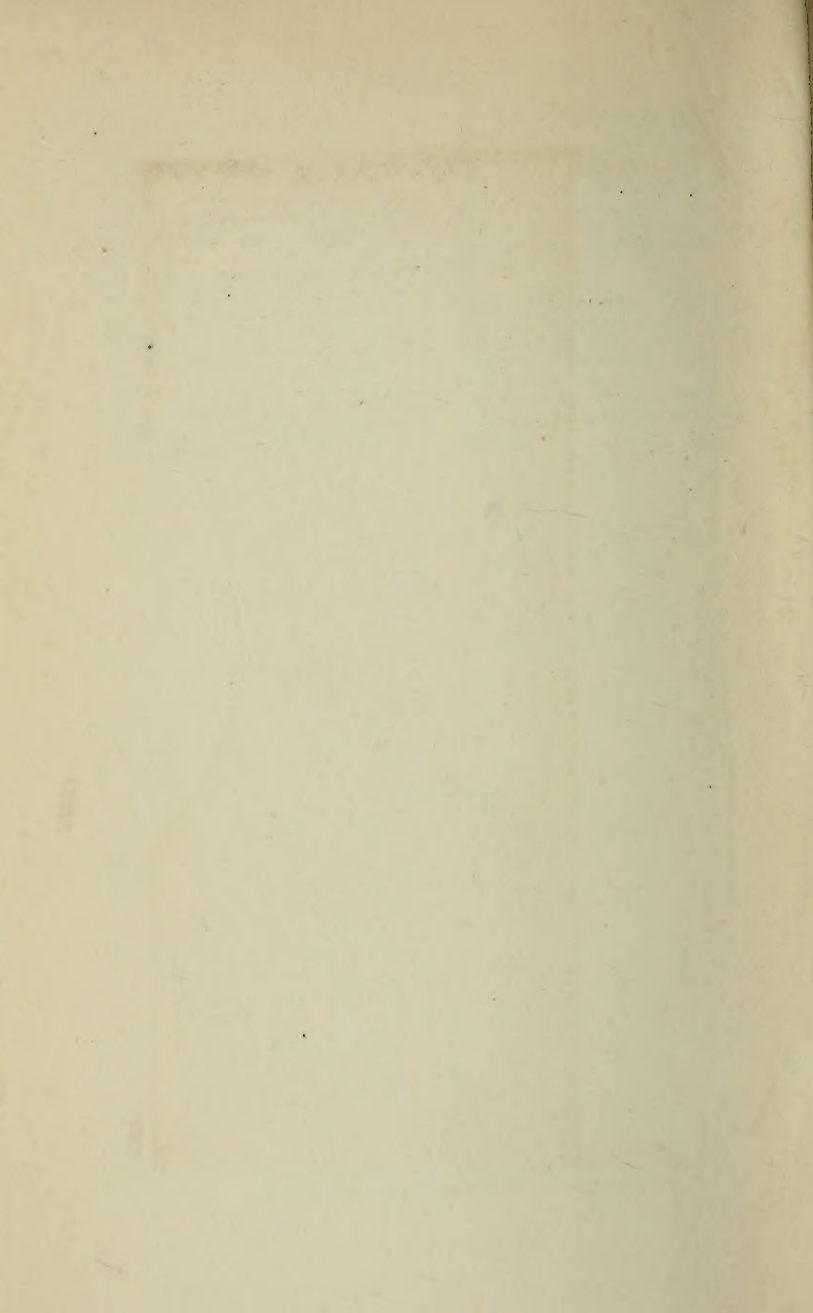
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